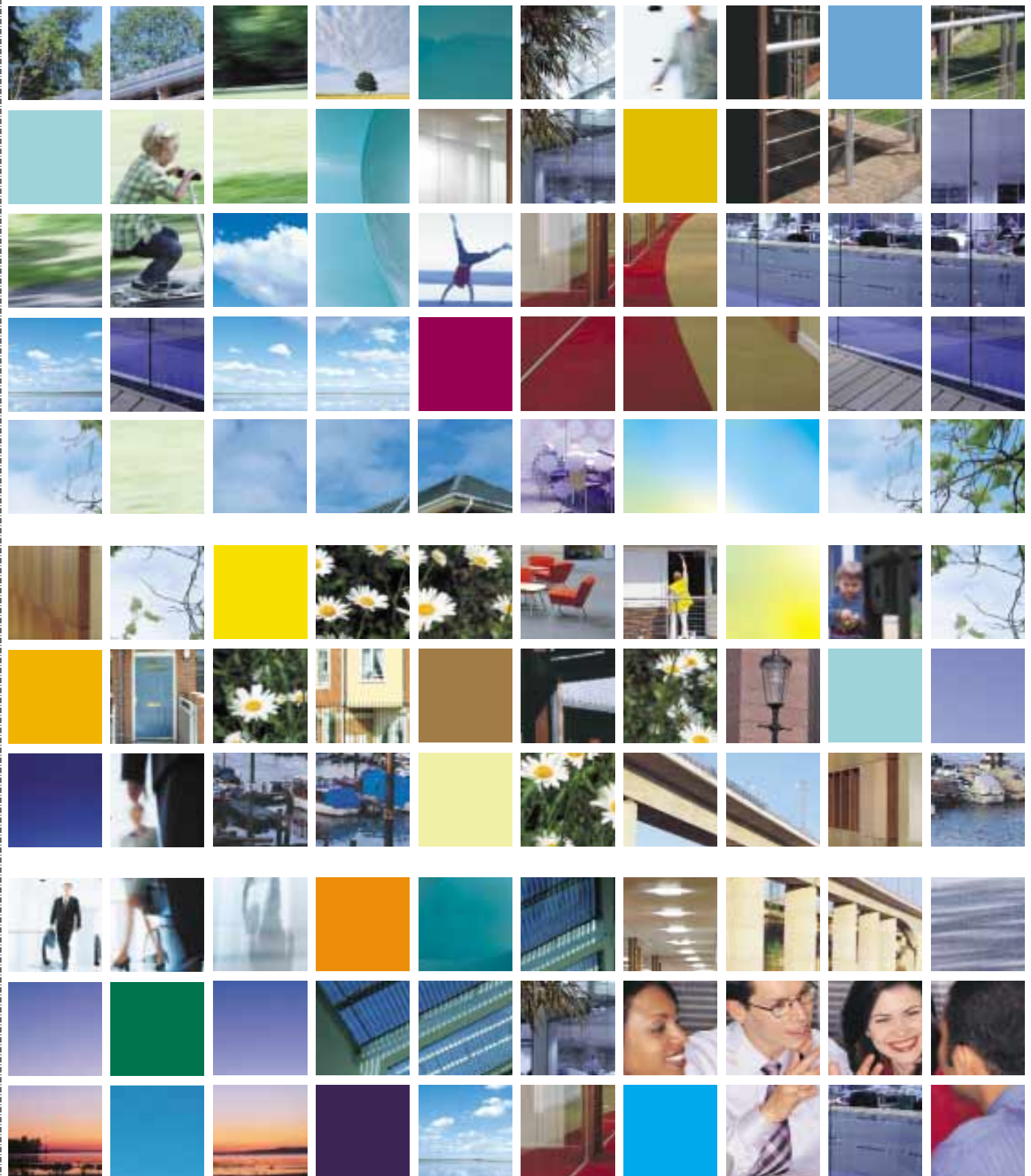


REPORT AND ACCOUNTS 2002

MORGAN  SINDALL
THE CONSTRUCTION BRANDS GROUP



OVERBURY

MORGAN LOVELL
THE WORKPLACE SPECIALIST

vivid
interiors

backbone
furniture

FIT OUT

The Fit Out Division, comprising Overbury, Morgan Lovell, Vivid Interiors and Backbone Furniture provides a range of services to the commercial interiors sector including design, fit out, refurbishment and furniture advice. The Division, which has been setting the standard in fit out for 25 years, provides an exceptional level of customer service with high degrees of repeat business on a project by project basis and within frameworks and long term partnerships.

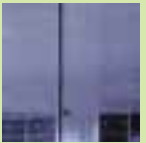
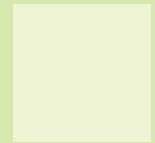


bluestone

REGIONAL CONSTRUCTION

Bluestone is Morgan Sindall's regional construction business. It is structured to ensure a flexible service to customers by local delivery of a national capability across the whole of England and Wales. Bluestone operates in both the public and private sectors and has a strong presence in accommodation, education, health, commercial, leisure and non-food retail sectors. Bluestone's aim is to provide a quality service consistently across the UK.

ALL



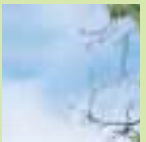
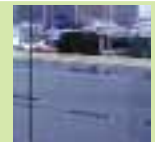
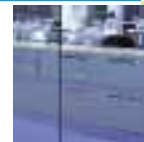
AFFORDABLE HOUSING

Lovell is the UK's leading provider of affordable housing, specialising in mixed tenure developments and major refurbishment opportunities. The Company works in partnership with Housing Associations and Local Authorities at the cutting edge of urban regeneration to create sustainable communities. Lovell's competitive advantage is its experience in the delivery of the whole range of affordable housing solutions. This includes open market homes, design and build, refurbishment, PFI schemes and housing stock transfer programmes. Lovell has also pioneered its own innovative form of low cost home ownership, Lovell Choice.



INFRASTRUCTURE SERVICES

The Infrastructure Services Division operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering projects in both the public and private sectors. A market leader in partnering arrangements, its culture of 'Early Solutions Together' has led to strong long term client relationships.





MORGAN SINDALL PLC IS A TOP TEN UK CONSTRUCTION COMPANY EMPLOYING 5,000 PEOPLE. LEADING BRANDS OPERATE WITHIN FOUR SPECIALIST DIVISIONS TARGETED AT SPECIFIC GROWTH MARKETS. THE INHERENT STRENGTH OF THE GROUP IS DERIVED FROM THIS BALANCE OF ACTIVITY AND THE ABILITY TO PROVIDE A COORDINATED APPROACH TO INTEGRATED CONSTRUCTION SOLUTIONS.

MORGAN SINDALL SETS OUT TO BE DIFFERENT FROM THE COMPETITION THROUGH ITS MANAGEMENT STYLE AND CULTURE, WHICH SUPPORTS DECENTRALISATION AND EMPOWERMENT, AFFORDING EMPLOYEES A DYNAMIC ENVIRONMENT THAT ENCOURAGES CONTINUOUS IMPROVEMENT THROUGH CHALLENGE AND INNOVATION.

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HIGHLIGHTS

FINANCIAL

	2002	2001	%
TURNOVER	£1,038M	£909M	+14
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	£15.53M	£20.77M	-25
EARNINGS PER ORDINARY SHARE	25.32P	36.03P	-30
DIVIDENDS PER ORDINARY SHARE	15.00P	14.00P	+7
NET ASSETS	£70.3M	£63.7M	+10

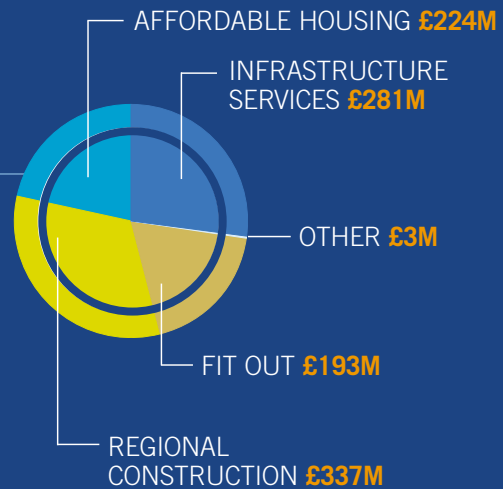
TURNOVER £M



PROFIT BEFORE TAX £M



TURNOVER ANALYSIS



OPERATIONAL

- SECOND MOST PROFITABLE YEAR IN GROUP'S HISTORY
- REGIONAL CONSTRUCTION RESTRUCTURE COMPLETED
- RECORD YEAR END ORDER BOOK OF OVER £1.3BN
- DIVISIONAL BALANCE IMPROVED WITH THE EXPANSION OF AFFORDABLE HOUSING AND INFRASTRUCTURE SERVICES
- BALANCE SHEET REMAINS STRONG AND EFFICIENT
- OPPORTUNITY FOR ORGANIC GROWTH

CHAIRMAN'S STATEMENT



2002 has been the second most profitable year in the Group's history with three Divisions recording strong or record results. For our fourth Division Regional Construction, it was a year of restructure. Whilst this resulted in, as forecast, a trading loss for the Division, future years will benefit from the improvements achieved. Turnover for the year was £1,038m (2001: £909m) and whilst earnings per share for 2002 were 25.3p compared to 36.0p in the previous year this still represents an 18% compound growth since 1995.

Looking at our four Divisions individually and collectively I believe the Group is now stronger than it has ever been. Acquired in January 2002, Pipeline Constructors Group, a utilities services provider, has been successfully integrated into Morgan Est enhancing its reputation as a leading infrastructure services business. Lovell grows in stature as the market leader in affordable housing, a sector attracting considerable profile and funding. Our Fit Out Division continues to perform well reflecting the strength of its brands. Bluestone is emerging as a recognised national construction brand serving both national and regional clients and delivering quality projects locally. This balance of activity over a broad range of types of construction activity, in both the public and private sector, welded together by a common culture and underpinned by a sound balance sheet is the key to the Group's strength. The Board's confidence in the underlying business is the basis for recommending an increase in final dividend to 10.75p making a total of 15.0p for the year (2001: 14.0p).

TRADING OVERVIEW

FIT OUT Overbury and Morgan Lovell have had another excellent year managing to maintain operating profit despite a 17% reduction in turnover, which occurred in the second half of the year. The reduction in the take up of office space has meant lower levels of new fit out work, a trend which will probably continue into 2003. However, the Division is seeing increased demand for refurbishment of used empty space for re-letting and for refurbishment 'in occupation' where companies seek to maximise usage of their existing space resource. Overall we go into 2003 with a £66m order book which is only £3m less than last year. Two new businesses, Vivid Interiors and Backbone Furniture, were established in the year, which will utilise the skill base and broaden the Division's market opportunities.

REGIONAL CONSTRUCTION During 2002 this Division has successfully merged the six regional brands into one national brand, Bluestone. This strategic step was essential to align the Division with the needs of the market and to meet the requirements of its customers in a consistent and coordinated way. Bluestone is increasingly establishing itself with its customers and suppliers and has a more rigorous and cost effective management structure. What is equally important to me is that Bluestone employees are excited by the opportunities the single brand and new structure offers. Bluestone's expanding skill set is increasingly providing access to a broader spectrum of customers who operate either nationally or locally and this flexibility represents one of the Division's key strengths. This, in conjunction with its controlled entry into the longer term public private partnerships, should see this Division return to profitability during 2003.

AFFORDABLE HOUSING Lovell has had another excellent year. Turnover was up 43%, operating profit increased to £6.0m from £4.3m and the order book has risen to £565m from £255m. Even more exciting from a longer term perspective are the projects currently at the planning stage. All of this has meant an increase in both personnel and investment but there is no doubt that Lovell has market leadership in its specialist field of mixed tenure affordable housing, a market where there is huge opportunity.



“LOOKING AT OUR FOUR DIVISIONS INDIVIDUALLY AND COLLECTIVELY I BELIEVE THE GROUP IS NOW STRONGER THAN IT HAS EVER BEEN.”

INFRASTRUCTURE SERVICES 2001 saw the establishment by acquisition of our Infrastructure Services Division and in January 2002 we added to it with the purchase of a utility services provider. The 2002 result, comprising turnover of £281m and operating profit of £6.5m, has therefore no meaningful prior year comparison but does show an early return on the £38m total investment. Morgan Est's main markets are within the public sector, with its strong presence in water, utilities, tunnelling and specialised civil engineering projects. The sizeable order book is a reflection of the partnering culture that is increasingly used in this sector of the construction industry and by Morgan Est. There is still much to be achieved in terms of margin and working capital management but we see infrastructure services as a strong market offering us exciting opportunities.

FINANCIAL

The development of the Group has impacted on the balance sheet and cash profile. Historically the Group only had Divisions that were cash generative and supporting activities such as property investment and development were undertaken to maximise returns on surplus cash. Recent acquisitions have utilised these cash surpluses and with our Affordable Housing Division we have opportunity for profitable reinvestment of future cash flows. Whilst the 2002 balance sheet shows net cash of £6.8m, during the year we have utilised modest overdraft facilities. Looking forward I believe the Group cash profile will be cash generative with retained profits sufficient to finance growth in Affordable Housing. Working capital fluctuations, particularly from Infrastructure Services, will continue to be covered by our existing banking overdraft facilities. This is a sustainable financial model and creates a more efficient balance sheet structure.

CORPORATE SOCIAL RESPONSIBILITY

In 2002 we established a top level committee comprising representation from main board and senior operational management to emphasise the importance within the Group of adopting a proactive approach to environmental, health and safety and social responsibility issues. Whilst the primary objective of any company must be to generate shareholder value we firmly believe that there is a valid business case for increasing the Group's commitment in this area rather than merely conforming to legal and industry minimum requirements. The Group cannot ignore the impact of its activities on the community but by responsible and positive behaviour it should in turn gain from reciprocal fair treatment from employees, clients and suppliers. Further details of our policies and health and safety statistics are included in the Directors Report on pages 24 to 26.

OUTLOOK

We are already experiencing some reduction in demand from the private sector economy which has affected both our Fit Out and Regional Construction Divisions. On the other hand expenditure in the public sector is forecast to increase and our year end order books in both Affordable Housing and Infrastructure Services have never been higher. The hard decisions made in 2002 have created a stronger business. We have industry leading positions in specific segments where the Group will benefit from its competitive advantage and as such I remain hugely optimistic for the prospects of the Group.

John Morgan
Executive Chairman

11 February 2003



FITOUT

THE DIVISION HAS FURTHER EXTENDED ITS CAPABILITY AND MARKET REACH BY CREATING TWO NEW BRANDS, VIVID INTERIORS AND BACKBONE FURNITURE.

- Left: **Trafigura, London**
Design and fit out of two floors of office space.
- Right: **IBM, Southbank, London**
Refurbishment, whilst in occupation, of five floors of office space, reception area, restaurant and conferencing suite.



OVERVIEW

OVERBURY

MORGAN LOVELL
THE WORKPLACE SPECIALIST

vivid interiors

backbone
furniture

- Operating profit of £10.5m on turnover of £193m
- Continuous improvement initiative ‘Perfect Delivery’ continues to result in a high level of repeat business, measured client satisfaction and consistent profitability
- Responding to a high demand for refurbishment of occupied offices as companies seek to maximise efficient use of space
- Overbury completed its largest office refurbishment ‘in occupation’ of 18,500m²
- Expansion of the Division with two new brands, Vivid Interiors and Backbone Furniture
- Committed to improving supply chain relationships



- Far left: **Baker & McKenzie, London**
Refurbishment of second floor office space and first floor staff restaurant area.
- Left: **Sun Microsystems, London**
Refurbishment of two floors of office space including new reception areas.
- Right: **The National Film Theatre, London**
Refurbishment of front of house facilities including ticket office, information desk and restaurant areas.

TURNOVER £'000s 2002: 192,934 2001: 232,513
OPERATING PROFIT £'000s 2002: 10,483 2001: 10,717

The reduction of the office market in 2002 meant lower levels of work and greater competition for the Fit Out Division. Despite this the Division has achieved a high level of consistent performance resulting in an operating profit of £10.5m.

Overbury and Morgan Lovell continue to respond well to the dynamics of the office market. Sectors targeted in the public and private markets have secured a consistent workload for both these companies. Morgan Lovell has won £12m of public sector work and expects to further increase its penetration, being well placed to provide the service and value demanded.

As is usual at this stage of the economic cycle the Division is now seeing more demand for refurbishment in occupation as companies seek to sublet or use space more effectively.

Central to the quality of the service offered is the Division's continuous improvement initiative 'Perfect Delivery'. This places the Fit Out Division ahead of the industry in terms of its service delivery and drives business improvement across the Division resulting in a high level of repeat orders, measured client satisfaction and consistent profitability. 2002 saw the launch of the 'Perfect Delivery' initiative in Morgan Lovell and Vivid Interiors and it was the fourth year of development within Overbury, where perfectly delivered projects included the largest single refurbishment 'in occupation' project carried out to date. This highly complex logistical project for IBM took six months to plan and 18 months to carry out and involved the refurbishment of 18,500m² of space.



The Division has further extended its capability and market reach by creating two new businesses, Vivid Interiors and Backbone Furniture. Vivid Interiors was formed in March 2002 and provides fit out and refurbishment for the retail, leisure and entertainment sectors. Backbone Furniture was formed in October 2002 as an independent supplier of furniture for commercial interiors.

A commitment to improving relationships throughout the supply chain is being actively pursued to ensure that it is consistent, reliable, efficient and non-confrontational. The past year has seen the Division introduce many new initiatives. The most notable of these is to become the first contractor in the fit out market to operate a 'No Retentions' scheme. This has involved the introduction of an approved trade contractor scheme to forge long term relationships with suppliers and subcontractors.

Fit Out has built on its 25 years as the market leader, extending both its capability and quality of delivery. This places the Division in a strong position to return a sound performance in 2003 despite expected tougher market conditions.

CONTRACT PROFILE

OVERBURY

Specialist in the fit out and refurbishment of offices.

155 projects completed in 2002. Projects included a 75 week £17m refurbishment in occupation for IBM, and a 7 week £0.12m refurbishment for Allied Insurance Services. The average project size in 2002 was £0.98m with an average project duration of 14 weeks.

MORGAN LOVELL

Design, fit out and refurbishment of offices for end user clients.

102 projects completed in 2002. Projects included a 19 week, £1.3m office design and refurbishment whilst in occupation for URS in Bedford, and a 20 week design and fit out of Citadel Investment Group offices in the City of London.

VIVID INTERIORS

Fit out and refurbishment for the retail leisure and entertainment sectors.

Five projects completed in 2002 including a 10 week refurbishment of front of house facilities at The National Film Theatre on London's Southbank.

BACKBONE FURNITURE

Furniture services for commercial interiors.

Formed in October 2002, one contract completed.



REGIONAL CONSTRUCTION

THIS YEAR SAW THE SUCCESSFUL CREATION
OF THE GROUP'S REGIONAL CONSTRUCTION
BRAND, BLUESTONE.



- Left: **Institute of Astronomy**
A new two story extension.
- Right: **Old Church Street**
A high quality luxury residence:
a vicarage and church hall with
vergers apartments.



OVERVIEW



- Successful creation of the Group's regional construction brand Bluestone from six regional companies
- National coverage from 25 regional offices and 1,400 people
- Bluestone's positioning is in a less competitive market
- Repeat business increased with more negotiated work
- Focus on establishing longer term client relationships

TURNOVER £'000s 2002: 337,027 2001: 402,609
 OPERATING RESULT £'000s 2002: (4,952) 2001: 4,034



- Left: **St Clare Street**
Office refurbishment with new external cladding.
- Right: **Petersham Road**
Residential development on the River Thames.

This year saw the successful creation of the Group's regional construction brand, Bluestone by the merger of our six regional companies. This has been carried out in a remarkably short period through the commitment of our workforce and supported by major IT upgrades and systems integration.

Bluestone is quickly establishing itself as an important player across England and Wales and has 25 regional offices employing 1,400 people. It has positioned itself in the less competitive market for national delivery of smaller to medium value contracts.

Turnover has been controlled as the business re-focuses on its target markets. The effect of these changes impacted the first half result when the Division reported a £4.0m loss. In the second half a further £1m loss was incurred as the restructure was completed, however the underlying performance demonstrates clear signs of recovery which is set to continue.

Repeat business increased with Bluestone winning more work this year from key clients who include BUPA, Langtree Group plc, Pegasus Retirement Homes and international leisure park specialists, Center Parcs. Following the completion of the "Aqua Sana" project at Sherwood Forest for Center Parcs, Bluestone won further negotiated work to build a similar new facility in Elveden, East Anglia.

In 2002 Bluestone was one of six firms selected by Devon County Council to participate in a £200m major building projects framework, a five-year programme to upgrade schools, libraries and care centres. The Division's leading expertise in large industrial warehouse construction was highlighted with the award of a £14m contract to build a 350,000 sq.ft. warehouse for major DIY supplier Screwfix in Stoke-on-Trent. The facility, which could accommodate up to eight football pitches, is the first fully automated high-bay warehouse in the country.

In London, Bluestone completed the sixth and final Quinlan Terry designed villa on the Regent's Park Canal, part of a 14-year construction project which started in 1988. The internal finishes are of the very highest standards and feature stone and slate floors, ornamental fireplaces and enriched plastered ceilings.



At St. Edmundsbury Cathedral, Bury St. Edmunds, Bluestone has been building the north transept, cloister, choir aisle, crypt chapel and main tower. All materials and work specifications are aimed at a building lifespan of at least a thousand years.

In healthcare, Bluestone has won several projects and has recently topped out the £8.3m renal unit for the Royal Sussex County Hospital. As the contracting partner in a consortium Bluestone has entered the Government's innovative 25 year NHS Local Improvement Finance Trust initiative (NHS LIFT). This public private partnership programme is for the modernisation of primary health and social care premises across the UK. Bluestone has been short-listed on its first two submissions for Barnsley and Camden & Islington NHS LIFT schemes.

Bluestone's technical skills were acknowledged by the winning of *The Prime Minister's Award for Better Public Building*, which was awarded to Bristol City Learning Centres at Brislington. Following in the footsteps of last year's winner, Tate Modern, the centres have been recognised for excellence of design, construction, financial management and relationship to the local community. The eye-catching centres were built from original designs to completion in ten months.

The Division also joined a national initiative with other major UK construction providers, in *Partners in Constructing a Safer Environment*, which aims to educate both directly and indirectly employed construction workers on health and safety and create opportunities for workers to gain additional qualifications. Bluestone has received a number of Health and Safety awards, including two Gold awards from the Royal Society for the Prevention of Accidents (RoSPA), in recognition of its commitment to continuous Health and Safety improvement.

Bluestone sees the latest market developments and changes in customer procurement routes as a very exciting challenge. The Division is working at a pace to ensure that it is properly positioned to take full advantage in 2003 and beyond. The development of its ability to work in partnership with its customers, consultants and supply chain will increasingly distinguish it from the competition. A great deal of work has already been done, and there is a great deal more to do, but Bluestone approaches the future with genuine enthusiasm and vigour.

NOTABLE CONTRACTS

CENTER PARCS A £2.6m contract to build a new leisure facility at Elveden Forest Holiday Village in East Anglia.

KINGS COLLEGE CAMBRIDGE A £5.3m refurbishment of Grade II listed student accommodation and retail units in the centre of Cambridge.

BUPA A £4.5m scheme to build an operating theatre and extend outpatient and day-care departments at BUPA Hospital's Roundhay Hall site in Leeds.

STOKE-ON-TRENT REGENERATION A £14m high-bay newbuild distribution centre project in Stoke-on-Trent for end users Screwfix.

WEST SUSSEX COUNTY COUNCIL A £7.5m school at Crawley for children with special needs.

QUEEN ELIZABETH II HOSPITAL A £2.5m ward refurbishment at Kings Lynn, Norfolk.

BRISTOL CITY COUNCIL A £2.2m project for two state-of-the-art learning centres using innovative design and fast track construction.

UNIVERSITY COLLEGE LONDON An £8.7m project to build the new London Centre for Nanotechnology.

MARSTON HOTEL GROUP A £5.5m extension to the Hampshire Centrecourt Hotel at Basingstoke.



AFFORDABLE HOUSING

BY THE MIDDLE OF 2003, LOVELL WILL BE REFURBISHING PROPERTIES ACROSS THE UK AT A RATE OF MORE THAN 2000 PER MONTH.

- Left: **Central Park**

A flagship regeneration project of 300 mixed tenure houses in central Birmingham, highlighting Lovell's approach to design quality.

- Right: **Company Mentoring Scheme**

A national initiative pioneered by Lovell to raise the profile of the construction industry with 14-18 year olds.



OVERVIEW



- Record £565m order book and profit up to £6.0m
- Ground breaking £20m mixed tenure development secured in Scotland
- Appointed preferred bidder for a £40m PFI pathfinder project
- *Affordable Housing Provider of the Year* award for the second year in a row
- East Anglia regional office established
- Government's *Decent Homes Standard* initiative will generate £9.5bn of refurbishment work over the next 7 years
- Regeneration and cross subsidy schemes favour the Lovell approach



- **Left: Regents Park Estate**
A £12m demonstration partnering project with the London Borough of Camden to undertake major refurbishment works to over 30 blocks of high and medium rise flats.
- **Right: Waynflete Square**
A fast track development of 11 flats on a very difficult city centre site, promoting the use of prefabricated concrete panels.

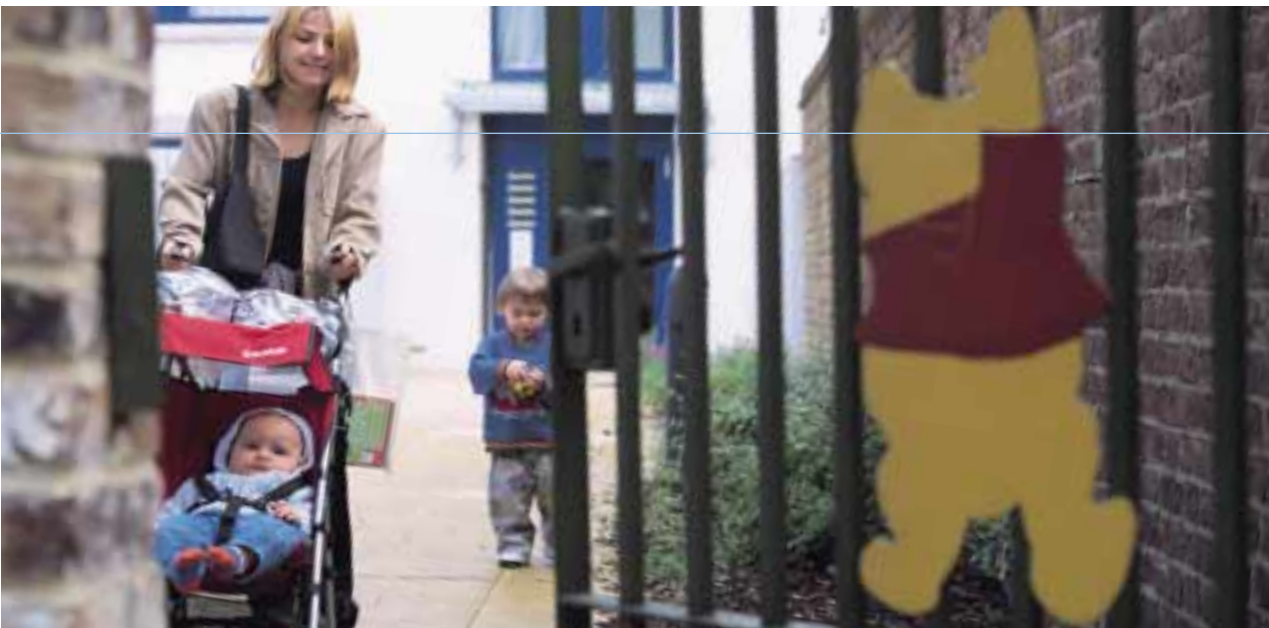
Lovell has had its best year on record with a 43% increase in turnover and operating profit up to £6.0m from £4.3m. The order book has grown to £565m from £255m and employee numbers have increased to over one thousand.

The Group's Affordable Housing Division is well positioned to benefit from current Government plans. Recognising the very poor condition of a large number of traditional council properties, the Government has established the *Decent Homes Standard*, which has set a target of 2010 for every social rented home in the country to meet this standard. This has resulted in a number of initiatives to fund these works, such as PFI and large scale stock transfers to Housing Associations. The Government is also trying to address the increasing demand for affordable homes, particularly in London and the South East and kick-start regeneration in areas of severe deprivation through programmes such as 'Market Renewal' and 'New Deal for Communities'.

Working from eight regions in England, Scotland and Wales with 11 local offices, Lovell has the experience, expertise and capacity to meet this increasing demand for refurbishment and new build mixed tenure opportunities. By the middle of 2003, Lovell will be refurbishing properties across the United Kingdom at a rate of more than 2,000 per month.

In 2002, Lovell won its first mixed tenure development scheme in Scotland having been selected as preferred developer for a £20m mixed tenure development in Southhouse, Edinburgh. The project is in partnership with Home in Scotland, Edinburgh City Council and the Southhouse and Burdiehouse Residents Organisation. Lovell has been appointed preferred bidder by North East Derbyshire District Council for the £40m PFI Pathfinder Project which has a construction value of £20m. This is for the refurbishment of 530 council houses in a former coalfield area over two and a half years.

TURNOVER £'000s 2002: 223,558 2001: 155,971
OPERATING PROFIT £'000s 2002: 5,965 2001: 4,292



In London, Lovell was selected as part of the Metropolitan West Hendon Consortium to build 2,000 homes in a £275m estate regeneration scheme for Barnet Council.

Lovell is skilled in cost modelling and cross subsidy arrangements to fund community activities, buildings and affordable rented housing. It is also committed to local labour and apprentice training with a detailed range of innovative training initiatives. Training solutions include the 'Craft Management Academy', a pioneering approach to apprentice training and the 'Company Mentoring Scheme', a partnership between regional offices and local secondary schools to raise the profile of the construction industry and which aims to attract talented individuals into the industry.

Expanding its regional operations, Lovell has established an East Anglian office. Housing demand in the region is expected to rise significantly with 25% household growth forecast over the next 20 years compared with 19% nationally.

For the second year in a row, Lovell has won the prestigious *Affordable Housing Provider of the Year* award at the 2002 Building Homes Quality Awards.

2002 has been an excellent year and sees Lovell well placed in a growth market through 2003 and beyond.

NOTABLE CONTRACTS

FIRST MIXED TENURE DEVELOPMENT scheme in Scotland for a three year £20m scheme at Southhouse, Edinburgh. The project will provide 111 homes for open market sale, 37 for rent as well as refurbishing 176 flats and undertaking major environmental works.

SOCIAL HOUSING PFI PATHFINDER project, as part of the Village Homes consortium, having been appointed preferred bidder by North East Derbyshire District Council for a £40m project to refurbish and maintain 530 council houses in a former coalfield area over a 30 year period.

IN LONDON, Lovell has been selected as part of the Metropolitan West Hendon Consortium to build 2,000 homes in a £275m estate regeneration scheme for Barnet Council.

BOWLEE PARK HOUSING ASSOCIATION Lovell is the developer for a £40m housing regeneration programme in Langley, Greater Manchester.

TOWER HAMLETS HOUSING ACTION TRUST A £40m scheme in partnership with The Guinness Trust to build 262 flats and houses in Bow, East London.

CASTLE VALE HOUSING ACTION TRUST A £20m design and build project to create 237 homes at Castle Vale, Birmingham.



INFRASTRUCTURE SERVICES

2002 HAS BEEN A LANDMARK YEAR FOR MORGAN EST.

- Work progressing on the £21m improvements to the United Utilities flagship clean water treatment plant near Kendal.



OVERVIEW

morgan=est

- Turnover has grown to £281m with an order book in excess of £550m
- Morgan Est operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering projects in both the public and private sector
 - One of the largest contractors in the water industry
 - Principal tunnelling contractor in the UK with its own pre-cast concrete factory and design office
 - Won a third contract on the Channel Tunnel Rail Link with a value of £178m
- A market leader in partnering arrangements, its culture of ‘Early Solutions Together’ has led to strong long term client relationships

– TOP INDUSTRY AWARDS

*Civil Engineering Contractor of the Year and Silver Helmet Award for Safety from the Contract Journal
RoSPA Sector Award for the Construction Industry
Contractor of the Year at the Tunnelling Industry Awards
SEPA Habitat Enhancement Initiative Award*



TURNOVER £'000s 2002: 280,565 2001: 95,384
OPERATING PROFIT £'000s 2002: 6,548 2001: 2,662

2002 has been a landmark year for Morgan Est, which now has over two thousand employees. Turnover grew to £281m with a forward order book in excess of £550m. The business operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering and has secured large contracts, which include Channel Tunnel Rail Link contract - CTRL 310, Heathrow Airport Airside Road Tunnel and Terminal 5 Tunnels and projects in the United Utilities Asset Management Programme (AMP 3).

Through Morgan Water and Morgan Utilities the Division has established itself as one of the single largest contractors in the water industry with well established joint venture partnerships and two major additional framework agreements, one of which is a £250m project for United Utilities over three years for asset management of 200 waste water, clean water and sewerage projects. Morgan Water is well placed for 2003 to secure further framework agreements and to extend its total capability offering. The Division is working closely with its clients on the next phase of five year maintenance contracts (AMP 4) which are due to start in 2004/5.

Since the January 2002 acquisition of a leading national utilities provider, Pipeline Constructors Group, Morgan Utilities has grown significantly and has successfully moved into key parts of electricity services. In 2003, further penetration is planned into the electricity market with the biggest growth potential in the electricity distribution sector which has upwards of £1bn annual expenditure in areas that Morgan Utilities can strongly compete.

- The award winning Medway River Crossing which forms part of the Channel Tunnel Rail Link.



Morgan Tunnelling remains the principal tunnelling contractor in the UK. It is in a joint venture with Vinci Construction Grands Projets to construct the £150m tunnels associated with the Terminal 5 Project at Heathrow Airport. At King's Cross, Morgan Tunnelling has also started a two and a half year scheme to design and construct new passageways between King's Cross, St Pancras and Thameslink for London Underground Limited. Technological advancements developed by Morgan Tunnelling will speed up the construction of concrete sprayed lined tunnels and with the establishment of a pre-cast concrete plant, Morgan Tunnelling now offers a complete design, technical and manufacturing service.

Morgan Civil Engineering has continued to deliver a strong performance winning a third contract on the Channel Tunnel Rail Link project to build three viaducts and railway works between Dagenham and Thurrock at a value of £178m. Success also came with the £55m PFI road project to provide, maintain and operate the Newport Southern Distributor Road for Newport City Council. With the planned Government spending on road and rail projects as part of the £180bn 10 year investment plan for transport, Morgan Civil Engineering is in a strong position to capitalise on current market opportunities.

In 2002, Morgan Est took two industry awards at the Contract Journal Awards - Civil Engineering Contractor of the Year and the Silver Helmet Award for Safety. Recognition was also received from RoSPA for outstanding performance in health and safety by a company or organisation within a particular industry or sector.

The Division starts 2003 with a long order book which reflects the strength and depth of the relationships with its clients. This together with the Government's commitment to major infrastructure investment, provides Morgan Est the opportunity for long term sustainable growth.

NOTABLE CONTRACTS

UNITED UTILITIES A three-year framework agreement with joint venture partners Barhale and Harbour & General Works for the delivery of a significant part of United Utilities remaining AMP 3 programme. The programme comprises 200 individual wastewater, clean water and sewerage projects with total value of £250m located in North Lancashire and Cumbria.

SEVERN TRENT A three-year, £85m contract for the repair and maintenance of the water distribution network, the sewerage network and associated reinstatement activities in Derbyshire, Nottinghamshire, Warwickshire and Northamptonshire.

UNION RAILWAYS (NORTH) £178m CTRL 310 joint venture to design and construct three viaducts and railway works for the Channel Tunnel Rail Link between the London tunnels at Dagenham and Thames tunnel at Thurrock.

HEATHROW AIRPORT AIRSIDE ROAD AND TERMINAL 5 TUNNELS Morgan Tunnelling is in a joint venture with Vinci Construction to construct the tunnels associated with the Terminal 5 Project at Heathrow Airport. The £150m contract, which includes the Heathrow Express and Piccadilly Line extensions, started in April and is due for completion in 2005.

NEWPORT SOUTHERN DISTRIBUTOR ROAD A £55m PFI project for the provision, operation and maintenance of a distributor road including a river crossing.

BOARD OF DIRECTORS



JOHN MORGAN



JOHN BISHOP



PAUL WHITMORE



BERNARD ASHER



GERALDINE GALLACHER

**JOHN MORGAN (47) EXECUTIVE CHAIRMAN
RETIREMENT BY ROTATION 2005**

Founded Morgan Lovell together with Jack Lovell in 1977. He was appointed Chief Executive of Morgan Sindall plc in 1994 and Executive Chairman at the Annual General Meeting in 2000.

**JOHN BISHOP (57) FINANCE DIRECTOR
RETIREMENT BY ROTATION 2004**

A Chartered Accountant with 20 years board experience in UK quoted companies. On the creation of Morgan Sindall Group in 1994, he joined the board initially as Corporate Development Director, and became Finance Director in June 1998.

**PAUL WHITMORE (48) COMMERCIAL DIRECTOR
RETIREMENT BY ROTATION 2005**

Joined the board in April 2000 having undertaken various roles during 27 years in the construction industry, latterly as Chief Executive of Laing Construction plc.



JACK LOVELL



JON WALDEN

**BERNARD ASHER (66) SENIOR NON-EXECUTIVE
RETIREMENT BY ROTATION 2004**

Appointed to the Board in March 1998 and recognised as the senior Non-Executive Director since 1999. Chairman of Lonrho Africa plc. Vice-Chairman of the Court of Governors of The London School of Economics, Non-Executive Director of Legal & General Group plc, Remy Cointreau and Randgold Resources. Formerly a director of HSBC plc.

**GERALDINE GALLACHER (43) NON-EXECUTIVE
RETIREMENT BY ROTATION 2003**

Appointed to the Board in May 1995. Founder and Managing Director of The Executive Coaching Consultancy having formerly been head of Group Management Development for Burton Group plc (now Arcadia plc).

**JACK LOVELL (47) NON-EXECUTIVE
RETIREMENT BY ROTATION 2003**

Co-founder with John Morgan of Morgan Lovell in 1977 and a member of the Board of Morgan Sindall plc since October 1994 with executive responsibilities for marketing and latterly, client services. He assumed a Non-Executive role from August 2001.

**JON WALDEN (49) NON-EXECUTIVE
RETIREMENT BY ROTATION 2005**

Joined the Board with effect from May 2001. He is a main Board Director of Lex Service plc and Managing Director of Lex Vehicle Leasing. Previously he held various roles within Lex and also at Rank Xerox having qualified as a Chartered Accountant at Touche Ross (now Deloitte & Touche).

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report to the members together with the audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

Morgan Sindall is a construction group with four main Divisions - Fit Out, Regional Construction, Affordable Housing and Infrastructure Services. The principal subsidiary companies operating within this divisional structure are shown on page 59. All activities are carried out in the United Kingdom and the Channel Islands.

RESULTS AND DIVIDENDS

The Group made a profit for the year, after taxation, of £10.392m (2001: £14.234m). The final dividend for the year recommended by the directors is 10.75p per ordinary share, which together with the interim dividend of 4.25p per ordinary share gives a total dividend for the year of 15p per ordinary share (2001: 14p). Preference dividends paid or accrued amounted to £0.128m (2001: £0.190m).

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A general review of the Group's activities, development and future prospects is included in the Chairman's Statement on pages 4 to 5 and in the Divisional Reviews on the pages immediately following.

FIXED ASSETS

External professional valuations of the Group's investment properties were carried out as at 31 December 1999. The directors have considered the carrying value of the Group's interests in property and consider that there is no substantial difference between market and balance sheet values.

DIRECTORS

The directors at the date of this report, all of whom held office throughout the year, are shown on page 62. Further information on the Group Board's constitution, policies and procedures is set out under Corporate Governance on pages 31 to 33.

Geraldine Gallacher and Jack Lovell are the directors to retire by rotation and, being eligible, offer themselves for re-election. Biographical details of the retiring directors are shown on page 23.

NON-EXECUTIVE DIRECTORS

A short biographical note on each non-executive director is shown on page 23. The role and responsibilities of the non-executive directors have been formally established by the Board. Further information on these matters may be found under Corporate Governance on pages 31 to 33.

SUBSTANTIAL SHAREHOLDINGS

Excluding directors (whose shareholdings are shown on page 59) the following shareholdings representing 3% or more of the issued ordinary share capital have been notified to the Company as at 11 February 2003:

	Number of Shares	Percentage Holding
Aviva plc/Morley Fund Management Ltd	2,945,930	6.96%

EMPLOYMENT POLICIES

The Company insists that a policy of equal opportunity employment is demonstrably evident throughout the Group. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential. Subject to the nature of its businesses in the construction industry, the policy of the Company is to ensure that there are fair opportunities in the Group for the employment, training and career development of disabled persons including continuity of employment with re-training where appropriate.

The Company recognises the need to ensure effective communication with employees. Policies and procedures have been developed in the Group taking account of factors such as location and numbers employed. Further information is included in the section on Corporate Social Responsibility later in this Report.

PENSIONS

Details of the pension scheme operated for the permanent salaried staff of the Group are shown in note 28 on pages 56 and 57. A stakeholder pension facility is provided for employees not eligible for membership of the pension scheme referred to above. The facility the Group offers is the B & CE Easybuild scheme administered by the Building & Civil Engineering Benefits Trust, long established as a supplier of employee benefits in the construction industry.

CORPORATE SOCIAL RESPONSIBILITY ('CSR')

During the course of 2002, the Group has increased its commitment to improving standards in environmental, health and safety, and social responsibility issues. It was decided to consolidate these areas of activity under a Corporate Social Responsibility Policy, which has since been published and is available to employees on the Group's intranet.

REPORT OF THE DIRECTORS

The Board has established a CSR Forum, chaired by Geraldine Gallacher (non-executive Director), supported by the Group Commercial Director, Paul Whitmore, together with representatives of the four Group Divisions.

A target measure the CSR Forum has set the Divisions is to achieve accreditation under each of the following three internationally recognised schemes:-

ISO 9001	Quality Management System
ISO 14001	Environmental Management System
OHSAS 18001	Occupational Health and Safety System

A realistic date for achieving the target is the end of 2004. During 2002 Morgan Est has achieved full accreditation under all three of the schemes. The remainder of the Group are at varying stages of accreditation and have individual plans to achieve comparable accreditation within the target timeframe.

As part of the aim of becoming an 'Employer of Choice', the CSR Forum has undertaken the planning stage of the Group's first ever Employee Climate Survey which will be conducted in February this year. 2002 also saw the introduction within Bluestone of the Employee Assistance Programme run by Coultts Care. This provides employees with access to a confidential help-line over which they can discuss a range of issues including personal, legal, tax and financial matters and aspects of their work and career. Initial feedback on the use of the facility has been very encouraging and a wider application of the service is being considered.

HEALTH AND SAFETY

Paul Whitmore is the director responsible for Group health and safety matters. The Group's Health and Safety Policy is available to all employees on the Group's intranet. The Board recognise and acknowledge the fundamental importance of health and safety in its business and in the construction industry.

The Group's Health and Safety Policy states:

"Morgan Sindall plc and its subsidiary companies are committed to providing a healthy and safe working environment for all the Group's employees and others affected by our works.

We accept the aims and provisions of the Health and Safety at Work Act 1974 and all regulations made thereunder. We recognise that the successful management of health and safety contributes to overall performance in a quality business.

We are therefore committed to:

- Developing a positive health and safety culture throughout the organisation.
- Constantly reviewing health and safety management and performance in accordance with the objectives identified by the Group's Policy.
- Developing organisational structures appropriate to meeting those objectives in each operating location within the subsidiary companies.
- The systematic identification and management of risks to health and safety and the environment.
- Providing the information, instruction, training, supervision and consultation with employees and clients as necessary to implement and maintain industry standards of excellence in all matters in the field of health and safety.

Every employee of the Group is expected to give full co-operation and every possible assistance to the successful implementation of the health and safety policies and procedures within their respective companies and to take reasonable care for their own safety and that of others involved in or affected by our works".

Through an active programme of continuous improvement, the Group remain committed to the objectives of the Major Contractors Group (MCG) Health and Safety Charter, the key components of which are:-

- A target reduction of 10% year on year in the incidence rate of all reportable injuries and dangerous occurrences until 2010.
- A fully qualified workforce by the end of 2003.
- A site specific induction process before anyone is allowed to work on site.
- All workers being consulted on health and safety matters in a three-tier system based on project, work gang and individual workers.
- Holding best practice workshops on health and safety practices and setting up a system to disseminate lessons learnt.
- Publishing an annual report of members' safety performance.
- Supporting the Construction Confederation's aim of reducing the incidence rate of work related ill health in the construction industry by 10% year on year from January 2003.

REPORT OF THE DIRECTORS

The Group continues to participate in the MCG reporting programme on a monthly basis. The table below shows a comparison of the Group's performance against the MCG average of all their members:

Accidents Category	MCG Member Average		Morgan Sindall	
	2002	2001	2002	2001
Fatal (Number)	8	10	-	1
Major Incidents (AIR)*	313	293	208	132
Over 3 day Incidents (AIR)*	791	779	787	627
Total of all reportable Incidents (AIR)*	1,201	1,077	995	814

These figures relate to years ending on 31 March.

*Accident Incidence Rate (AIR) is per 100,000 employees and is calculated as: $\frac{\text{number of reported incidents}}{\text{average number of persons}} \times 100,000$

The Group continues to perform above the average of its peer group albeit it has not succeeded in 2002 in its target reduction of 10% of reportable injures and dangerous occurrences.

CREDITOR PAYMENT POLICY

The Company's policy is to:

1. use unamended terms of widely recognised Standard Forms of Contract drawn up by bodies representing participants in the industry;
2. clearly agree and set down the terms of payment with suppliers and subcontractors; and
3. make payments in accordance with its obligations.

Calculated in accordance with regulations made under the Companies Act 1985, as at 31 December 2002, the Group's number of creditor days outstanding was 26.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year charitable contributions amounted to £14,335 (2001: £14,529). No contributions were made to any political parties during the current or preceding years.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday, 27 March 2003. The notice of the meeting is set out on page 60 of this Annual Report. The notice contains items which are special business, being the authorities for the Board to allot equity securities. Explanatory notes on the special business items are shown on page 61.

In addition, a new item of ordinary business is included being the approval of the directors' remuneration report.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the Annual General Meeting.

By order of the Board

W R Johnston
Company Secretary

11 February 2003

REMUNERATION REPORT

INTRODUCTION

This report incorporates the changes brought in by Statutory Instrument 2002 No 1986 –The Directors' Remuneration Report Regulations, which came into force on 1 August 2002.

The regulations require the auditors to report to the Company's members on the auditable part of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared. This report has therefore been divided into separate sections for unaudited and audited information.

UNAUDITED INFORMATION

The remuneration committee comprises:
G Gallacher (Chairman)
B H Asher
J Walden

As recommended in the Combined Code, John Morgan, Executive Chairman of the Company assisted the remuneration committee in their deliberations on executive director remuneration.

No material assistance was taken in the year from external sources with the exception of legal advice from Charles Russell Solicitors, relating to the administration of the Long Term Incentive Plan and the Employee Benefits Plan.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of the executive directors is determined by the remuneration committee ("the committee") taking full account of the Combined Code appended to The Listing Rules issued by the Financial Services Authority.

The committee seeks to develop remuneration packages which satisfy the following principles:

- to attract, retain and motivate the best possible person for each position;
- to recognise the importance of achieving the expectations of performance in the short and long term to ensure the success of the Group relative to other UK businesses of similar size and complexity;
- to reward directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector;
- to align the interests of executives with those of the shareholders.

The committee will ensure that directors' remuneration will be the subject of regular review in accordance with this policy.

BASIC SALARY

The basic salary of individual executive directors is determined by the committee at the beginning of each year and if an individual's position or responsibilities change. In setting basic salary levels the committee will, as appropriate, use objective external research to compare the Group to a comparator group of companies in the sector. In the current climate of salary stability a formal exercise of this nature has not been undertaken in the year.

BONUS ARRANGEMENTS AND LONG TERM INCENTIVE PLAN ('LTIP')

Performance related bonuses are a key feature of remuneration policy throughout the Group and are intended to give executive directors the potential to receive annual benefits equal to the other elements of their remuneration package but only if significant value has been delivered to shareholders. Performance targets are set against matters in which the individual concerned has a direct influence. In the operating Divisions this means the performance of the business unit or part thereof over which they are judged to have a direct management influence. For executive directors of Morgan Sindall plc and senior head office personnel cash bonuses are based on the performance of the Group against targets set annually by the committee. The targets comprise a scale of the Group's pre tax profits on ordinary activities that take into account the previous year's result and growth expectations both internally set and those externally published.

The maximum cash element of total bonus which can be achieved by the executive directors (who all participate in the LTIP) equates to 75% of annual base salary.

For the year ended 31 December 2002 the group's pre-tax profits did not meet the minimum target set by the committee and accordingly no cash bonuses were paid.

The LTIP is designed to provide additional rewards for consistent out-performance and service over the longer period. It was introduced in 1997 for the executive directors of the Company and certain key Group senior management approved by the committee. Shares are conditionally awarded to participants in each financial year and can be allocated in whole or part after the Group's performance over the next three financial years has been measured and compared to a selected peer group.

The number of shares conditionally awarded in each year normally requires the participant to sacrifice 25% of the maximum bonus potentially payable for the year. The participant is then conditionally awarded the number of shares, which based on the market value at the date of award, is equal to the sum so sacrificed.

The maximum number of shares which may be conditionally awarded to any particular employee in any year is limited so that the aggregate market value of shares so awarded does not exceed 50% of the participant's annual basic salary.

REMUNERATION REPORT

Subsequently, to determine the number of conditionally awarded shares to be allocated a comparison is made of the increase in total shareholder value over three years with the corresponding increase of the fourteen companies listed in the Financial Times as construction companies which the committee consider as having a comparable business to the Group. The comparator group is currently comprised of the following companies: AMEC, Birse, Henry Boot, Carillion, Costain, Galliford Try, Gleeson, Havelok, Kier, Keller, Laing, McAlpine, Mowlem and Taylor Woodrow.

At the end of each three year period shares conditionally awarded will be allocated to participants if the Company is ranked first in the peer group and none will be allocated if the ranking is in the middle of the peer group or lower. Shares are allocated on a graduated scale between these two positions.

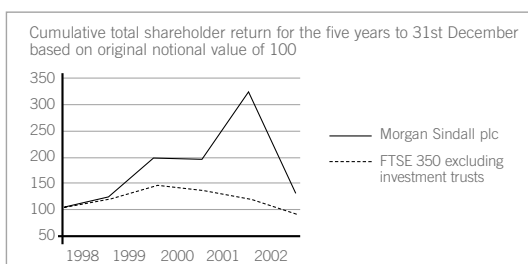
Fifth position in the peer group was achieved for the measurement period ended 31 December 2001 and an allocation of shares from those conditionally awarded for 1999 was made by the committee on 30 June 2002. The interests of each participating director are shown on page 30 with 48,342 shares from the numbers conditionally awarded in 1999 having accordingly lapsed.

The peer group comparison is confirmed each year by the Company's brokers. Preliminary figures for the year to 31 December 2002 indicate that the Group ranking will be below the middle of the peer group and that no allocation of shares will be made in the current year.

Once shares have been allocated, a participant is entitled to receive dividends in respect of those shares and to exercise voting rights. The participant is not entitled to transfer, sell or otherwise deal in the shares until a further two years have elapsed when the shares are vested in the participant's own name. Details of shares conditionally awarded, allocated and vested are shown in the audited section of this report.

PERFORMANCE GRAPH

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the companies comprised in the FTSE 350 index excluding investment trusts. This is considered by the committee to be the most suitable comparable broad index against which the Company's performance should be measured.



SHARE OPTION SCHEMES

No share options have been granted to Main Board directors.

Details of options granted to employees in the Group are shown in note 25 to the accounts on page 54. The total number of options which may be granted at any time is fixed by the committee within the approved limits of the scheme.

No further options can be granted under the Company's 1988 Scheme. The exercise of options granted under the 1995 Scheme will be subject to a performance target and will normally be exercisable only if the percentage growth in earnings per share of the Company over a five year period has at least been equal to the percentage growth in earnings per share of three-fourths of the constituent companies in the FTSE 100 index over the same period.

The relevant calculation relating to the performance target will be carried out and certified by the Company's brokers. Preliminary figures for the period to 31 December 2002 indicate that the performance target will be achieved.

SERVICE CONTRACTS

Executive directors' contracts are terminable on one year's notice. In circumstances of termination by notice (except in cases of removal for misconduct), compensation will be determined by the committee having regard to the particular circumstances of the case. The committee's guidelines will be to determine an equitable compensation package while avoiding rewarding poor performance and having regard to the departing director's obligations of mitigating loss.

In ordinary circumstances, base salary and employer pension contributions for the full period of notice of one year would be paid together with accrued bonus entitlements and LTIP shares already allocated in accordance with satisfied performance criteria. Other employee benefits would also be maintained for the notice period subject to the rules of the appropriate Group scheme.

The terms of appointment of the two non-executive directors, Jack Lovell and Geraldine Gallacher, who are seeking re-election at the Annual General Meeting, do not have a notice period for termination which is in excess of one year's duration.

The dates of the directors' contracts are:

J C Morgan	28 October 1994
J M Bishop	28 October 1994
P Whitmore	21 March 2000
B H Asher	4 February 1998
G Gallacher	28 April 1995
J J C Lovell	2 August 2001
J Walden	21 March 2000

REMUNERATION REPORT

NON-EXECUTIVE DIRECTORS

All non-executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent for periods not exceeding one year. Their remuneration is determined by the Board within the limits set by the Articles of Association and based on surveys with external advice as appropriate as to fees paid to non-executive directors of similar companies. The basic fee paid to each non-executive director is set out in tabular form later in this report. No additional fees have been paid to any non-executive in respect of membership of any Board committees. Non-executive directors do not participate in any Company share option or other share linked incentive plan and are not eligible to join the Company's pension scheme.

DIRECTORS' INTERESTS

The shareholdings of all directors are shown in note 32 to the Accounts on page 59 and their interests in shares under the Long Term Incentive Plan are shown on page 30.

AUDITED INFORMATION AGGREGATE DIRECTORS' REMUNERATION

The total amounts for directors' remuneration were as follows:

	2002	2001
	£'000s	£'000s
Emoluments	684	1,261
Amounts receivable under long-term incentive schemes	115	–
Money purchase pension contributions	55	61

DIRECTORS' EMOLUMENTS

Name of Director	Fees/Basic Salary £'000s	Benefits in kind £'000s	Cash bonuses £'000s	Total 2002 £'000s	Total 2001 £'000s
Executive					
J C Morgan	195	16	–	211	318
J M Bishop	175	13	–	188	282
P Whitmore	170	15	–	185	260
J J C Lovell	–	–	–	–	127
A M Stoddart	–	–	–	–	193
	540	44	–	584	1,180
Non executive					
B H Asher	25	–	–	25	20
G Gallacher	25	–	–	25	20
J J C Lovell	25	–	–	25	8
J Walden	25	–	–	25	13
Sir D P Hornby	–	–	–	–	20
	100	–	–	100	81
Totals	640	44	–	684	1,261
Fees to third parties				25	20

Fees to third parties comprise amounts paid to The Executive Coaching Consultancy for the services of Geraldine Gallacher. These same amounts are also shown against her name in the table above.

There were no elements of remuneration other than basic salary which were pensionable.

During the year, no compensatory awards were paid to any person who was formerly a director of the Company.

REMUNERATION REPORT

PENSIONS

The Company contributes 10% of base salary to defined contribution personal pension plans of the individual executive directors. The contributions paid by the Company to these plans were:

	2002 £'000s	2001 £'000s
J C Morgan	20	19
J M Bishop	18	17
P Whitmore	17	15
J J C Lovell	-	7
A M Stoddart	-	3

LONG TERM INCENTIVE PLAN ('LTIP')

A summary of the LTIP is included in the unaudited information earlier in this Report.

The executive directors' interests in shares under the LTIP are:

Shares conditionally awarded:

	As at 31 December 2002	Awarded/(lapsed) in the year	As at 31 December 2001
J C Morgan	71,547	18,243 (31,472)	84,776
J M Bishop	63,837	16,372 (29,224)	76,689
P Whitmore	52,192	15,904 -	36,288
J J C Lovell	35,785	-(23,818)	59,603

The market value per share of the shares conditionally awarded in the year was 341p as at the date of award.

Shares allocated and shares vested:

	As at 31 December 2002	Allocated/(vested) in the year	As at 31 December 2001
J C Morgan	38,695	13,470 (14,212)	39,437
J M Bishop	35,931	12,508 (12,274)	35,697
J J C Lovell	29,113	10,194 (12,274)	31,193

The shares vested as shown above are the first under the LTIP and accordingly a separate table of shares vested would add no further information. The market value of the Company's shares at the date of vesting was 297.5p.

The market value of shares allocated in the year was 285p at the date of allocation.

For details of the qualifying conditions under the LTIP see page 28.

APPROVAL

This report was approved by the Board on 6 February 2003.

By order of the Board

W R Johnston
Company Secretary

11 February 2003

CORPORATE GOVERNANCE

POLICY STATEMENT

The Group supports the Principles of Good Governance and the Code of Best Practice ("the Code"). Accordingly this report will deal with the requirements of the Code and also of paragraphs (a) and (b) of FSA Listing Rule 12.43A relating to Section 1 of the Code.

APPLICATION OF THE PRINCIPLES OF GOOD GOVERNANCE

The Company has applied the Principles of Good Governance set out in section 1 of the Code. Further explanation is set out below and in connection with directors' remuneration in the directors' remuneration report.

BOARD CONSTITUTION AND PROCEDURES

John Morgan has held the position of Executive Chairman since February 2001. Since that date the Company has acknowledged that it has not had a clear division of the responsibility for strategic and operational matters split between two people as recommended in a Code principle.

The Board comprises three executives and four non executives. All of the non-executive directors, with the exception of Jack Lovell, are considered to be independent of management and free from any business or other relationship which could materially affect their independent judgement. Jack Lovell is a former executive director and thus is not deemed independent under the criteria laid down by the National Association of Pension Funds. Bernard Asher is the senior independent director. The composition of the Board satisfies the Code that the Board should have a balance of executive and non-executive directors in terms of number and relevant experience to enable it to have effective leadership and control of the Group. It also ensures that the decision making process cannot be dominated by any individual or small group of individuals.

Code Principle A.6 requires that every director submits for re-election at least every three years. The Articles of Association of the Company reflect this Code provision.

The Board met on ten scheduled occasions during the year in addition ad hoc meetings were convened for particular purposes. Overall attendance at the scheduled meetings totalled 83% for the year with no individual director falling below an attendance of 80%. The key purposes of the scheduled meetings were to review all significant aspects of the Group's activities, supervise the executive management and to make decisions in relation to those matters which are specifically reserved to the Board. A formal agenda for each meeting is agreed with the Chairman and is circulated well in advance of the meeting to allow time for proper consideration with the Company Secretary being responsible for the timeliness and quality of the information.

The Company conforms with the Code provision regarding training facilities for directors on first appointment and subsequently as necessary. Adequate provision for training is made annually in an allocated training budget which also covers senior head office personnel with specific professional responsibilities relating to the proper management and conduct of a listed company. There are agreed procedures by which directors are able to take independent professional advice, at the expense of the Company, on matters relating to their duties. For certain purposes the Company Secretary is regarded as falling within that category of advisers and has been instructed by the Board to act accordingly. The Board has also resolved that any question of the removal from office of the Company Secretary is a matter to be considered by the Board as a whole.

BOARD COMMITTEES

The Board has established an audit and a remuneration committee.

AUDIT COMMITTEE

The audit committee comprises Geraldine Gallacher, Jon Walden and Bernard Asher, who has the Chair. Its duties include keeping under review the scope and results of the audit, its cost effectiveness and the objectivity of the auditors. The committee may request the attendance of any executive director and a representative of the external auditors. The committee meets at least twice yearly.

During the current year the audit committee will be considering the report entitled 'Audit Committees – Combined Code Guidance' published in January this year by the Financial Reporting Council.

The auditors, Deloitte & Touche, have confirmed to the committee that they have policies and safeguards in place to ensure that they are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. In particular, they have rotated audit partners and key audit principals to the extent required by the ICAEW's Additional Guidance on Independence for Auditors.

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE

The remuneration committee comprises Geraldine Gallacher as Chairman, Bernard Asher and Jon Walden. Three meetings were held in the year to cover all elements of the directors' remuneration. The committee has three independent directors as recommended by the National Association of Pension Funds representing the views of institutional investors.

A report to shareholders on directors' remuneration is shown on pages 27 to 30.

NOMINATIONS COMMITTEE

The Board considers that as it has a total of only seven members it may consider itself to be 'small' as provided for in the Code. It can therefore properly deal with certain matters collectively which might otherwise have been delegated to a committee. Accordingly, a nominations committee has not been established. The Board's policy on appointments to it is that every Board member should have the opportunity of individual meetings with prospective candidates.

RELATIONS WITH SHAREHOLDERS

The Company actively seeks to enter into dialogue with institutional shareholders whenever possible. It also endorses the Code principles generally on the conduct of Annual General Meetings including that it be used as an opportunity for effective communication with private shareholders whose participation in the proceedings is encouraged.

The Company has taken advantage of The Companies Act 1985 (Electronic Communications) Order 2000 allowing communication with shareholders, where individual shareholders so choose, in electronic format.

The Company's Registrars have now completed trials of system software to facilitate electronic proxy voting. Although too late for this year's Annual General meeting, this facility will be available for all future meetings. Details of proxy votes submitted for this year's Annual General Meeting will be available on the Company's web-site.

The Company now makes announcements available on its web-site as at the dates of release to the London Stock Exchange Regulatory News Service. Further development of the web-site is planned to enhance the timely delivery of information to institutional and private shareholders, sector analysts and the financial and trade media.

INTERNAL CONTROL STATEMENT

All procedures necessary to implement 'Internal Control: Guidance for Directors on the Combined Code' were put in place in 1999. These procedures have been in place for the year under review and up to the date of approval of the Annual Report and Accounts. These procedures have been regularly reviewed and have been subject to further development and refinement and this report therefore follows an approach of full compliance throughout the year with Code Principle D.2. The Board has acknowledged that it has overall responsibility for the Group's system of internal control and for ongoing review of its effectiveness. The internal control system is designed to manage rather than eliminate the risk of failure to achieve certain business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

RISK MANAGEMENT

The Board has reserved specific responsibility to itself for the formulation of the risk management strategy of the Group. A formal process is in place through which the Company identifies the significant risks attached to its strategic objectives, confirms the control strategy for each risk and identifies the appropriate early warning mechanisms. A risk management policy document has been adopted by the Board setting out the Board's role and responsibilities and its overall approach to management and acceptance of risk. Internal control and risk management systems are embedded in the operations of the business.

FINANCIAL INFORMATION

The Board recognises that an essential part of the responsibility for running a business is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of profits. The Group has a comprehensive system flowing through each Division for monthly reporting to the Board.

CORPORATE GOVERNANCE

INVESTMENT AND CAPITAL EXPENDITURE APPRAISAL

There are clear policies, detailed procedures and defined levels of authority in relation to investment, capital expenditure, significant cost commitments and asset disposals.

COMPUTER SYSTEMS

The Group has established controls and procedures over the security of data held on computer systems. These controls and procedures are reviewed within the rolling examination programme described below under 'internal audit'.

CONTROLS OVER CENTRAL FUNCTIONS

A number of the Group's key functions, including treasury, risk management and insurance are dealt with centrally. Each of these functions have detailed procedure manuals.

INTERNAL AUDIT

The Board continues to review the need or otherwise for an internal audit function and remains of the opinion that such a function is not essential. Instead, led by specialist central Group personnel, there is a rolling programme of peer group examination in which selected staff participate in the examination and review of the practices and procedures of Divisions other than their own. It is felt that this programme not only provides many of the benefits to be derived from an internal audit function but also assists in the professional development of the individual staff concerned whilst at the same time identifying and providing a mechanism for the cross-fertilisation of ideas and best practice throughout the Group.

ANNUAL REVIEW

The Board has conducted a review of the effectiveness of the system of internal financial control for the year ended 31 December 2002 and for the period to the date of this report. The review was performed on the basis of the criteria set out in the Guidance for Directors 'Internal Control and Financial Reporting' issued in December 1994. The process included a formal review conducted by the Board of a consolidated report of the Divisional Risk Framework reviews together with the Group Risk Framework document which is re-appraised and updated annually. In addition, the Board has also reviewed the results of the internal control peer reviews referred to above.

COMPLIANCE STATEMENT

The Company has throughout the year been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance appended to the Listing Rules issued by the Financial Services Authority.

GOING CONCERN

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis in preparing the financial statements.

DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.

The directors are responsible for ensuring that the proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps, for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORGAN SINDALL PLC

We have audited the financial statements of Morgan Sindall plc for the year ended 31 December 2002 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, statement of total recognised gains and losses, note of historical cost profits and losses, the related notes 1 to 33 together with the statement of movements in reserves and shareholders' funds. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Company's Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in our auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
London

11 February 2003

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002		2001	
		£'000s	£'000s	£'000s	£'000s
Turnover					
Continuing operations			937,313		910,766
Acquisitions			103,333		–
Less share of joint ventures turnover			(2,259)		(1,598)
Group turnover	1		1,038,387		909,168
Cost of sales	1		(942,782)		(820,004)
Gross profit			95,605		89,164
Administrative expenses	1		(80,672)		(70,709)
Other operating income	2		758		1,133
Operating profit					
Continuing operations			13,359	19,588	
Acquisitions			2,332	–	
Total operating profit	1,3		15,691		19,588
Share of profit of joint ventures	13		603		17
Net interest (payable)/receivable	4		(764)		1,165
Profit on ordinary activities before taxation			15,530		20,770
Tax charge on profit on ordinary activities	5		(5,138)		(6,536)
Profit on ordinary activities after taxation			10,392		14,234
Dividends on equity and non-equity shares	6		(6,254)		(5,824)
Retained profit for the year			4,138		8,410
Earnings per ordinary share	7		25.32p		36.03p
Diluted earnings per ordinary share	7		25.00p		34.87p

GROUP BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	2002		2001	
		£'000s	£'000s	£'000s	£'000s
Fixed assets					
Intangible assets	11		54,395		40,009
Tangible assets	12		21,308		19,887
Share of joint ventures gross assets		31,771		22,151	
Share of joint ventures gross liabilities		(27,287)		(20,551)	
Investment in joint ventures	13		4,484		1,600
Other investments	13		1,337		1,366
			81,524		62,862
Current assets					
Stocks	14		49,644		36,028
Debtors	15		176,491		155,261
Cash at bank and in hand	16		6,849		34,639
			232,984		225,928
Creditors: amounts falling due within one year	18		(243,657)		(224,418)
Net current (liabilities)/assets			(10,673)		1,510
Total assets less current liabilities			70,851		64,372
Creditors: amounts falling due after more than one year	19		(571)		(629)
Net assets			70,280		63,743
Capital and reserves					
Called up share capital	25		3,646		4,993
Share premium account			24,375		22,896
Revaluation reserve	26		6,941		4,627
Profit and loss account			35,318		31,227
Total shareholders' funds			70,280		63,743
Shareholders' funds are attributable to:					
Equity shareholders' funds			68,696		60,779
Non-equity shareholders' funds			1,584		2,964
			70,280		63,743

Approved by the Board on 11 February 2003

J C Morgan
J M Bishop

COMPANY BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	2002 £'000s	2001 £'000s
Fixed assets			
Tangible assets	12	7,468	7,442
Investments	13	110,405	92,540
		117,873	99,982
Current assets			
Stocks	14	1,240	3,767
Debtors	15	16,592	12,981
Cash at bank and in hand	16	–	375
		17,832	17,123
Creditors: amounts falling due within one year	18	(45,286)	(40,757)
Net current liabilities		(27,454)	(23,634)
Net assets		90,419	76,348
Capital and reserves			
Called up share capital	25	3,646	4,993
Share premium account		24,375	22,896
Revaluation reserve	26	2,948	2,948
Special reserve		13,644	13,644
Profit and loss account		45,806	31,867
Total shareholders' funds		90,419	76,348
Shareholders' funds are attributable to:			
Equity shareholders' funds		88,835	73,384
Non-equity shareholders' funds		1,584	2,964
		90,419	76,348

Approved by the Board on 11 February 2003

J C Morgan
J M Bishop

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000s	2001 £'000s
Net cash inflow from operating activities	29	630	36,159
Returns on investments and servicing of finance			
Interest received		821	1,434
Interest paid		(1,557)	(727)
Dividends paid to preference shareholders		(128)	(190)
Interest paid on finance lease charges		(56)	(62)
		(920)	455
Taxation			
Corporation tax paid		(6,349)	(6,079)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(5,282)	(3,330)
Receipts from sale of tangible fixed assets		416	551
Payments to acquire fixed asset investments		(103)	(311)
		(4,969)	(3,090)
Acquisitions and disposals			
Purchase of subsidiary undertakings	27	(10,606)	(25,658)
Net cash acquired with subsidiary undertakings	27	506	4,720
		(10,100)	(20,938)
Equity dividends paid		(5,755)	(4,368)
Net cash (outflow)/inflow before financing		(27,463)	2,139
Financing			
Issue of shares, net of expenses		132	9,139
Capital element of finance leases		(459)	(113)
Net cash (outflow)/inflow from financing activities		(327)	9,026
(Decrease)/increase in cash	30, 31	(27,790)	11,165

COMBINED STATEMENT OF MOVEMENTS IN RESERVES AND SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

Group	Share premium account £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	2002 Shareholders' funds £'000s	2001 Shareholders' funds £'000s
Balance at 1 January	22,896	4,627	31,227	58,750	4,993	63,743	45,700
Retained profit for the year	–	–	4,138	4,138	–	4,138	8,410
Converted preference shares	1,352	–	–	1,352	(1,352)	–	–
Options exercised	127	–	–	127	5	132	774
Unrealised loss on deemed disposal of joint venture interest	–	–	(47)	(47)	–	(47)	–
Share of joint venture revaluation surplus	–	2,314	–	2,314	–	2,314	494
New shares issued	–	–	–	–	–	–	8,365
Balance at 31 December	24,375	6,941	35,318	66,634	3,646	70,280	63,743

Included within the profit and loss account balance at 31 December 2002 is an amount for unrealised goodwill totalling £7,034,000 (2001: £7,034,000).

Company	Share premium account £'000s	Special reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	2002 Shareholders' funds £'000s	2001 Shareholders' funds £'000s
Balance at 1 January	22,896	13,644	2,948	31,867	71,355	4,993	76,348	66,039
Retained profit for the year	–	–	–	13,939	13,939	–	13,939	1,170
Converted preference shares	1,352	–	–	–	1,352	(1,352)	–	–
Options exercised	127	–	–	–	127	5	132	774
New shares issued	–	–	–	–	–	–	–	8,365
Balance at 31 December	24,375	13,644	2,948	45,806	86,773	3,646	90,419	76,348

OTHER PRIMARY STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

Statement of Total Recognised Gains and Losses

	2002 £'000s	2001 £'000s
Profit for the financial year before dividends	10,392	14,234
Share of joint venture revaluation surplus	2,314	494
Unrealised loss on deemed disposal of joint venture interest	(47)	–
Total recognised gain since last annual report	12,659	14,728

Note of Historical Cost Profits and Losses

	2002 £'000s	2001 £'000s
Profit on ordinary activities before taxation	15,530	20,770
Realisation of property valuation gains of prior years	–	126
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	65	70
Historical cost profit on ordinary activities before taxation	15,595	20,966
Historical cost profit on ordinary activities after taxation and dividends	4,203	8,606

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed asset properties, and in accordance with applicable United Kingdom accounting standards. Compliance with SSAP19 Accounting for Investment Properties requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation is given below. Where the Group is party to a joint arrangement which is not an entity, the Group accounts for its part of the income and expenditure, assets, liabilities and cash flows of the joint arrangement.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings.

Acquisitions and disposals

The results of subsidiaries are included in the consolidated profit and loss account from the date of acquisition. Goodwill is the difference between the fair value of consideration given on acquisition of a business and the aggregate fair value of its separable net assets. Goodwill is capitalised and written off in equal instalments over its useful economic life of 20 years.

Goodwill that arose on acquisitions prior to 31 December 1997 is eliminated against the profit and loss account reserve. Amounts will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates.

Turnover

Turnover is defined as the value of goods and services rendered excluding VAT.

Fixed asset investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment in value. In the consolidated accounts the Group's share of the results of the joint ventures are shown each year in the profit and loss account and the Group's share of retained profit and reserves is added to the cost of the investment in the balance sheet.

Fixed assets and depreciation

By adopting Financial Reporting Standard 15, non-investment properties are now held at cost. Under the transitional rules of the Standard, the Group has frozen the book amounts of certain revalued properties and the valuation has not been updated.

No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Freehold property	–	2% per annum
Leasehold property	–	period of the lease
Plant, machinery, motor vehicles and equipment	–	between 10% and 33% per annum

No depreciation is provided in respect of freehold investment properties which are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. The Companies Act 1985 requires all properties to be depreciated, however this requirement conflicts with the generally held accounting principle set out in SSAP19. The directors consider that as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation.

PRINCIPAL ACCOUNTING POLICIES

Stocks

Stocks are valued at the lower of cost and net realisable value. Interest incurred on borrowings to finance specific developments is capitalised.

Contract accounting

Contracts are accounted for as long term contracts. Anticipated net sales value of contracts include a proportion of attributable profit where a profitable outcome can be foreseen, provision being made for foreseeable losses. Turnover less progress payments is recorded in 'amounts recoverable on contracts' within debtors. Where progress payments exceed turnover and other contract balances the excess is shown as 'payments on account' in creditors.

Attributable 'pre-contract' costs, that are incurred prior to the time that there is virtual certainty of future recovery, are expensed.

Deferred taxation

The Group has adopted Financial Reporting Standard 19, Deferred Tax. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leased assets

Assets acquired under finance leases are included in tangible fixed assets at equivalent cost. Depreciation is provided at rates designed to write-off this amount using the straight line method over the shorter of the estimated useful lives of the assets or the period of the leases. The capital element of the future rentals is treated as a liability in the balance sheet and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the leases.

Pensions

The Group contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements which are of a defined contribution type. Subject to the circumstances referred to in note 28 on page 56, the annual costs are charged to the profit and loss account.

NOTES TO THE ACCOUNTS

1 Analysis of turnover, cost of sales, administrative expenses, operating profit and net assets

	2002			2001		
	Turnover £'000s	Profit/ (loss) £'000s	Net assets £'000s	Turnover £'000s	Profit/ (loss) £'000s	Net assets £'000s
Fit out	192,934	10,483	(9,109)	232,513	10,717	(12,077)
Regional construction	337,027	(4,952)	2,241	402,609	4,034	1,118
Affordable housing	223,558	5,965	12,032	155,971	4,292	19,833
Infrastructure services	280,565	6,548	27,769	95,384	2,662	15,202
Group activities and investments	4,303	(2,353)	38,461	22,691	(2,117)	5,882
	1,038,387	15,691	71,394	909,168	19,588	29,958
Net (debt)/funds (note 30)			(1,114)			33,785
Net assets			70,280			63,743

Segmental net assets are stated after deducting interest bearing net debt/funds. All activities are carried out in the United Kingdom and Channel Islands.

Included within cost of sales is an amount of £97,370,000 derived from acquisitions and £845,412,000 from continuing operations. Administrative expenses includes an amount of £3,631,000 relating to acquisitions and £77,041,000 to continuing operations.

2 Other operating income

	2002 £'000s	2001 £'000s
Rent receivable from continuing operations	758	1,133

3 Operating profit

Operating profit is stated after charging/(crediting);

	2002 £'000s	2001 £'000s
Depreciation – owned assets	3,357	2,978
– leased assets	712	141
Profit on sale of fixed assets	(166)	(80)
Amortisation of goodwill	3,116	1,478
Hire of plant and machinery	23,842	13,002
Operating lease costs – land and buildings	2,502	2,481
– other	4,231	2,998
Auditors' remuneration – audit	312	270
– other audit related services	1	–
– non audit related services	–	–

NOTES TO THE ACCOUNTS

4 Net interest (payable)/receivable

	2002 £'000s	2001 £'000s
Interest payable on bank overdrafts	(1,553)	(727)
Interest payable on finance leases	(56)	(62)
Other interest payable	(4)	–
Interest capitalised	28	520
	(1,585)	(269)
Bank interest receivable	821	1,434
	(764)	1,165

5 Tax charge on profit on ordinary activities

	2002 £'000s	2001 £'000s
Current taxation		
UK corporation tax charge for the year	5,525	6,286
Adjustment in respect of prior years	199	250
Total current tax	5,724	6,536
Deferred taxation (note 21)		
Origination and reversal of timing differences	(572)	–
Share of taxation of associated undertaking	(14)	–
Tax charge on profit on ordinary activities	5,138	6,536

Adoption of Financial Reporting Standard 19, Deferred Tax, has required a change in the method of accounting for deferred tax. The impact of this change is a deferred tax credit in the year of £572,000. This represents an asset brought forward of £270,000 and a movement during the year of a further credit of £302,000. The prior year result has not been restated as the impact is not considered material.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and the previous year exceeds the standard rate for the reasons set out in the following reconciliation.

	2002 £'000s	2001 £'000s
Profit on ordinary activities before tax	15,530	20,770
Tax on profit on ordinary activities at standard rate	4,659	6,231
Factors affecting charge for the year		
Capital allowances for the year in excess of depreciation	(199)	(32)
Expenses not deductible for tax purposes	770	585
Utilisation of tax losses	(715)	(946)
Adjustments to tax charge in respect of previous years	199	250
Amortisation not deductible for tax purposes	935	443
Other short term timing differences	75	5
Total actual amounts of current tax	5,724	6,536

No provision has been made for deferred tax on revaluing property to its market value. The tax on the gains arising from the revaluation would only become payable if property were sold without rollover relief being available. The tax which would be payable in such circumstances is estimated to be £2,082,000 (2001: £1,388,000). These assets are expected to be used in the continuing operations of the Group and its joint ventures and therefore no tax is expected to be paid in the foreseeable future.

The total amount of deferred tax assets that are not recognised in the financial statements in relation to losses carried forward amounted to £1,332,000 (2001: £1,500,000) due to the uncertainty of the availability of future profits against which the losses can be recovered.

NOTES TO THE ACCOUNTS

6 Dividends on equity and non-equity shares

	2002 £'000s	2001 £'000s
Non-equity dividends on preference shares		
Paid	82	144
Accrued	46	46
	128	190
Equity dividends on ordinary shares		
Interim paid	1,756	1,542
Final proposed	4,433	4,151
	6,189	5,693
Total dividends	6,317	5,883
Dividends on shares held in trust relating to the Long Term Incentive Plan	(63)	(59)
	6,254	5,824

7 Earnings per ordinary share

The calculation of the earnings per share is based on the weighted average number of 40,535,000 (2001: 38,974,000) ordinary shares in issue during the year and on the profits for the year attributable to ordinary shareholders of £10,264,000 (2001: £14,043,000).

In calculating the diluted earnings per share, earnings are adjusted for the preference dividend of £128,000 (2001: £190,000) making adjusted earnings of £10,392,000 (2001: £14,233,000). The weighted average number of ordinary shares are adjusted for the dilutive effect of the convertible preference shares by 634,000 (2001: 1,185,000), share options by 398,000 (2001: 561,000) and contingent Long Term Incentive Plan shares by nil (2001: 94,000) giving an adjusted number of ordinary shares of 41,567,000 (2001: 40,814,000).

8 Profit of parent company

The Company has taken advantage of s230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The profit of the parent company for the financial year amounted to £20,193,000 (2001: £6,994,000).

NOTES TO THE ACCOUNTS

9 Employees

The average number of people employed by the Group during the year was:

	2002 No.	2001 No.
Fit out	452	471
Regional construction	1,402	1,475
Affordable housing	989	727
Infrastructure services	1,975	682
Other	26	22
	4,844	3,377

10 Staff costs

	2002 £'000s	2001 £'000s
Wages and salaries	129,270	91,882
Social security costs	13,978	9,637
Pension costs	3,602	2,505
	146,850	104,024

11 Intangible fixed assets

Group	Goodwill £'000s
Cost	
At 1 January 2002	42,707
Additions (note 27)	17,502
At 31 December 2002	60,209
Amortisation	
At 1 January 2002	2,698
Provided in the year	3,116
At 31 December 2002	5,814
Net book value at 31 December 2002	54,395
Net book value at 31 December 2001	40,009

NOTES TO THE ACCOUNTS

12 Tangible fixed assets

(a) Group	Owned plant, machinery & equipment £'000s	Leased plant, machinery & equipment £'000s	Motor vehicles £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation						
At 1 January 2002	24,064	1,879	441	6,080	3,927	36,391
Acquisition of subsidiary undertaking	4,433	–	732	–	–	5,165
Additions	4,587	160	31	–	504	5,282
Disposals	(3,672)	(11)	(799)	(21)	–	(4,503)
At 31 December 2002	29,412	2,028	405	6,059	4,431	42,335
Depreciation						
At 1 January 2002	14,070	845	388	279	922	16,504
Acquisition of subsidiary undertaking	3,992	–	715	–	–	4,707
Provided in the year	3,330	150	34	43	512	4,069
Disposals	(3,455)	(11)	(776)	(11)	–	(4,253)
At 31 December 2002	17,937	984	361	311	1,434	21,027
Net book value at 31 December 2002	11,475	1,044	44	5,748	2,997	21,308
Net book value at 31 December 2001	9,994	1,034	53	5,801	3,005	19,887

(b) Company	Owned plant, machinery & equipment £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation				
At 1 January 2002	384	6,059	1,600	8,043
Additions	279	–	–	279
Disposals	(5)	–	–	(5)
At 31 December 2002	658	6,059	1,600	8,317
Depreciation				
At 1 January 2002	173	269	159	601
Provided in the year	131	42	78	251
Disposals	(3)	–	–	(3)
At 31 December 2002	301	311	237	849
Net book value at 31 December 2002	357	5,748	1,363	7,468
Net book value at 31 December 2001	211	5,790	1,441	7,442

NOTES TO THE ACCOUNTS

12 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Investment properties				
Freehold	3,655	3,655	3,655	3,655
Short leasehold	1,363	1,441	1,363	1,441
	5,018	5,096	5,018	5,096
Other properties				
Freehold	2,093	2,146	2,093	2,135
Short leasehold	1,634	1,564	–	–
	3,727	3,710	2,093	2,135
Total net book value	8,745	8,806	7,111	7,231

Land and buildings at cost or valuation are stated:

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Investment properties at valuation	5,250	5,250	5,250	5,250
Other properties at valuation	1,351	1,351	1,351	1,351
Other properties at cost	3,889	3,406	1,058	1,058
	10,490	10,007	7,659	7,659

An independent valuation of the Group's investment properties was undertaken by Healey & Baker Real Estate Consultants as at 31 December 1999 on the basis of Existing Use Value in accordance with the RICS Appraisal and Valuation Manual. The directors have considered these valuations as at the balance sheet date and have concluded that no change is required to their carrying value.

Comparable amounts determined according to the historical cost convention:

	Cost	Accumulated depreciation	Net book value	Net book value
	2002 £'000s	2002 £'000s	2002 £'000s	2001 £'000s
Land and buildings	8,039	2,177	5,862	5,858

NOTES TO THE ACCOUNTS

13 Investments

(a) Group

	Joint ventures £'000s	Own shares at cost £'000s	Trade investment £'000s
At 1 January 2002	1,600	1,366	–
Additions	–	–	103
Share of profit for the year	603	–	–
Share of taxation	14	–	–
Share of revaluation surplus	2,314	–	–
Disposal/shares vested	(47)	(132)	–
At 31 December 2002	4,484	1,234	103

Investment in joint ventures

Morgan-Vinci Limited

Morgan-Vinci Limited is responsible for the construction of the Newport Southern Distributor Road which is being undertaken in part by Morgan Est plc on its behalf. Morgan-Vinci Limited is funded primarily by bank finance and has made nil turnover and profit for the period ended 31 December 2002.

Primary Medical Property Limited

Primary Medical Property Limited has a portfolio of primary care health centres. During the year an employee of Primary Medical Property Limited, exercised a share option thereby reducing the Group's interest in the ordinary shares from 50% to 47.5%. The Group's involvement in the management of Primary Medical Property Limited is restricted to the appointment of two directors under the terms of a shareholder agreement under which certain matters require the approval of all directors and as such the Group has maintained joint control. At 31 December 2002 the fixed assets of Primary Medical Property Limited were £48.7m, current assets £2.5m, current liabilities £2.0m and long term liabilities £39.9m.

Investment in own shares

The own shares at cost represent 524,081 Morgan Sindall plc ordinary shares held in The Morgan Sindall Employee Benefit Trust in connection with the Long Term Incentive Plan ('LTIP') as detailed in the Remuneration Report on pages 27 to 30. The trustee, the Legis Trust, purchases the Company's ordinary shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the LTIP. The unallocated shares number 420,342 and dividends on these shares have been waived. Dividends on allocated shares are paid to the participants as detailed on page 28. The cost of the shares expected to be awarded are charged over the three year period to which the award relates. Based on the Company's share price on 31 December 2002 of £1.75 the market value of the shares was £917,000.

(b) Company

	Own shares at cost £'000s	Subsidiary undertakings Shares £'000s	Loans £'000s	Joint venture shares £'000s	Total £'000s
Cost at 1 January 2002	1,366	92,064	4,395	4	97,829
Additions	–	17,997	10	–	18,007
Shares vested	(132)	–	–	–	(132)
Cost at 31 December 2002	1,234	110,061	4,405	4	115,704
Provisions at 1 January 2002	–	890	4,395	4	5,289
Provisions created in year	–	–	10	–	10
Provisions at 31 December 2002	–	890	4,405	4	5,299
Net book value at 31 December 2002	1,234	109,171	–	–	110,405
Net book value at 31 December 2001	1,366	91,174	–	–	92,540

NOTES TO THE ACCOUNTS

14 Stocks

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Development works and building land	46,574	34,879	1,240	3,767
Trading properties	587	871	-	-
Materials and equipment	2,483	278	-	-
	49,644	36,028	1,240	3,767

Included within development works and building land is £3,000 (2001: £241,000) in respect of interest capitalised.

15 Debtors

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Trade debtors	54,749	64,043	159	252
Amounts recoverable on contracts	112,870	85,416	-	-
Amounts owed by subsidiary undertakings	-	-	15,168	10,329
Amounts owed by joint ventures	483	12	3	-
Corporation tax recoverable	-	-	462	-
Deferred tax asset (note 21)	572	-	-	-
Other debtors	4,480	3,422	330	1,521
Prepayments and accrued income	3,337	2,368	470	879
	176,491	155,261	16,592	12,981

16 Cash at bank and in hand

The Group's financial instruments comprise cash that arises directly from its operations. In particular the Group holds cash in the form of sterling deposits with counterparties, which are at a fixed interest rate based on LIBOR and for periods not exceeding three months. The Directors consider the fair value of the Group's financial instruments is not materially different to the book value.

The objective of placing these deposits with financial institutions approved by the Board is to maximise interest received. The Group's treasury policy sets out lending limits and minimum liquidity requirements to be met. By lending surplus funds to counterparties the Group's risk profile is not significantly changed from maintaining funds with the Group's clearing bank.

During the period under review the Group did not enter into derivative transactions and has not undertaken trading in any financial instruments.

17 Loan notes

The loan notes totalling £7,161,000 (see note 18) were issued as part consideration for the acquisition of Pipeline Constructors Group Plc. Their interest rate is determined by reference to a six month sterling money market deposit and as such varies every six months. They are redeemable by the loan note holders at six monthly intervals commencing on 2 January 2003.

NOTES TO THE ACCOUNTS

18 Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Bank overdraft	-	-	6,048	7,737
Loan notes (note 17)	7,161	-	7,161	-
Obligations under finance leases (note 20)	231	225	-	-
Payments on account	13,798	11,221	-	-
Trade creditors	67,192	73,429	549	413
Amounts owed to subsidiary undertakings	-	-	25,386	22,451
Other creditors	4,632	3,897	468	678
Corporation tax	2,410	4,034	-	454
Other tax and social security	9,259	7,711	113	109
Accruals and deferred income	134,495	119,793	1,082	4,807
Dividend	4,479	4,108	4,479	4,108
	243,657	224,418	45,286	40,757

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Obligations under finance leases (note 20)	571	629	-	-

20 Borrowings

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Borrowings are repayable as follows:				
Finance leases:				
Within one year	231	225	-	-
Within two to five years	471	629	-	-
After five years	100	-	-	-
	571	629	-	-
Total obligations under finance leases	802	854	-	-
Loan notes:				
Within one year	7,161	-	7,161	-
Total obligations	7,963	854	7,161	-

The finance leases are secured on the assets to which they relate. The loan notes are secured by a corresponding cash deposit.

NOTES TO THE ACCOUNTS

21 Deferred taxation

	Group £'000s	Company £'000s
Balance at 1 January 2002	-	-
Profit and loss account credit (note 5)	572	-
Deferred tax asset at 31 December 2002	572	-

Provision for deferred taxation consists of the following amounts:

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Capital allowances in excess of depreciation	328	-	-	-
Taxation loss and other timing differences	244	-	-	-
	572	-	-	-

22 Operating lease commitments

At 31 December 2002 the Group was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	2002			2001		
	Land and buildings £'000s	Other £'000s	Total £'000s	Land and buildings £'000s	Other £'000s	Total £'000s
Leases which expire:						
Within one year	304	976	1,280	171	746	917
Within two to five years	711	2,928	3,639	491	2,259	2,750
After five years	2,273	4	2,277	1,763	2	1,765
	3,288	3,908	7,196	2,425	3,007	5,432

23 Financial commitments

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Capital expenditure Authorised and contracted	-	6	-	-

24 Contingent liabilities

Group bank accounts and performance bond facilities are supported by cross-guarantees given by the Company and participating companies in the Group.

NOTES TO THE ACCOUNTS

25 Called up share capital

	2002		2001	
	No. '000s	£'000s	No. '000s	£'000s
Authorised				
Ordinary shares of 5p each	50,000	2,500	50,000	2,500
5.625% Convertible cumulative redeemable preference shares of £1 each	5,000	5,000	5,000	5,000
	55,000	7,500	55,000	7,500
Issued and fully paid				
Ordinary shares of 5p each	41,242	2,062	40,592	2,029
5.625% Convertible cumulative redeemable preference shares of £1 each	1,584	1,584	2,964	2,964
	42,826	3,646	43,556	4,993

Ordinary shares

The ordinary shares of 5p each of the Company issued during the year are shown below. Details of the share option schemes referred to are given later in this note.

- 10,900 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £13,876.00.
- 86,750 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £118,662.50.
- 551,802 ordinary shares in respect of conversion rights attached to 1,379,507 convertible preference shares exercised as at 30 June 2002.

Preference shares

The convertible preference shares are convertible at the option of the holder on 30 June in each of the years 1991 to 2003 inclusive on the basis of 40 ordinary shares for every 100 convertible preference shares. After conversion of 75% of the convertible preference shares the Company has the right to require the conversion of the outstanding balance. The convertible preference shares are redeemable at par at the Company's option after the last date of conversion in 2003 and are finally redeemable on 30 June 2005. There is no premium payable on a return of capital on a winding up and the convertible preference shares do not entitle the holders to any participation in the profits or assets of the Company beyond their preference dividend entitlement.

Options

The company has two share option schemes. The first scheme ('the 1988 Scheme') was introduced on 21 January 1988 and the second scheme ('the 1995 Scheme') received shareholders' approval on 24 May 1995. Options granted under the 1988 Scheme are exercisable between three and ten years from the date of grant and under the 1995 Scheme are exercisable between five and seven years from the date of grant. The period for the granting of options under the 1988 Scheme expired in January 1998. As at 31 December 2002 there remain 53,325 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. At the same date there were 2,102,450 options outstanding under the 1995 Scheme exercisable at prices between £1.47 and £4.95.

26 Revaluation reserve

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Investment property revaluation reserve	2,854	2,854	2,854	2,854
Other property revaluation reserve	94	94	94	94
Share of joint venture revaluation surplus	3,993	1,679	-	-
	6,941	4,627	2,948	2,948

NOTES TO THE ACCOUNTS

27 Acquisitions

Morgan Utilities Group Plc (formerly Pipeline Constructors Group Plc)

On 2 January 2002 the Company acquired Morgan Utilities Group Plc. The consideration was £10.4m of cash and £7.2m of loan notes.

The financial results of the business for the year to 30 September 2001 and the period to the date of acquisition were as follows:

	Turnover £'000s	Operating profit £'000s	Profit before taxation £'000s	Profit after taxation £'000s
Financial year to 30 September 2001	75,192	340	333	142
1 October 2001 to date of acquisition	20,104	(1,718)	(1,701)	(1,701)

The following table analyses the book value of the major categories of assets and liabilities acquired.

	Book value at date of acquisition £'000s	Provisional fair value adjustments £'000s	Reclassification £'000s	Notes	Provisional fair value of net assets £'000s
Tangible fixed assets	1,350	(60)	(832)	a,b	458
Stocks	1,511	(47)	832	a,b	2,296
Trade debtors	4,766	(15)	–	a	4,751
Amounts recoverable on contracts	10,838	(502)	–	c	10,336
Other debtors	327	500	–	a	827
Cash at bank	506	–	–		506
Trade creditors	(4,387)	–	–		(4,387)
Accruals	(7,181)	(909)	–	c	(8,090)
Other creditors and accruals	(4,360)	–	–		(4,360)
Finance leases	(407)	–	–		(407)
Net assets	2,963	(1,033)	–		1,930
Consideration					17,573
Acquisition costs					194
Total cost					17,767
Goodwill					15,837

The acquisition has been accounted for by the acquisition method of accounting. The fair values are provisional to allow the directors the opportunity to consider and finalise them in the coming year. The provisional fair value adjustments are explained as follows:

- a: Adjustment to carrying value of assets
- b: Reclassification of fixed asset land and building held for resale
- c: Provision for known liabilities

Cash flow

During the year, acquisitions absorbed £606,000 of the Group's net operating cash flows, paid £1,665,000 in respect of net returns on investment and servicing of finance, paid £76,000 in respect of corporation tax, paid £234,000 on net investing activities and £400,000 on net financing activities.

Morgan Est

On 10 May 2001 the Company acquired Morgan Est (Scotland) Limited (formerly Miller Civil Engineering Services Limited). The final cash consideration was £20.0m with acquisition costs of £0.2m. The final net liabilities were £1.52m following additional fair value adjustments of £1.67m made during the year. The business and assets were transferred to Morgan Est plc on 30 December 2001.

NOTES TO THE ACCOUNTS

28 Pensions

Defined contribution and hybrid schemes

The Morgan Sindall Retirement Benefits Plan (MSRBP) scheme was established on 31 May 1995 and operates on defined contribution principles where contributions are invested to accumulate capital sums to provide members with retirement and death benefits. MSRBP includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former active and deferred members of pension plans of companies which are part of the Group as it now stands. These include final salary related benefits for the members of the former Sindall Group Pension Fund in respect of benefits accrued before 31 May 1995. No further defined benefit membership rights can accrue after that date and consequently there is no service cost for such benefits in the year.

The last triennial valuation of the MSRBP was undertaken on 5 April 2001 and was prepared using the assumptions of rate of investment return of 6.0% per annum, rate of earnings escalation of 5.0% per annum and rate of inflation of 3.0% per annum. The ongoing liabilities of the MSRBP were assessed using the attained age method whereas the assets were taken at realisable market value. The defined benefit liabilities are fully funded. The actuarial valuation referred to shows that, on an ongoing basis, the value of the assets of £6.035m represented 106% of the value of these liabilities. The actuarial valuation also showed that the realisable market value of the Plan's assets is in excess of its minimum liabilities when assessed on the Minimum Funding Requirement basis (as defined in the Pensions Act 1995).

For the purposes of reporting under Financial Reporting Standard 17, Retirement Benefits, a valuation of the scheme was undertaken on 31 December 2002 and details are given below.

Valuation date		31 December 2002 Projected unit	31 December 2001 Projected unit
Valuation method	Notes	£'000s	£'000s
Fair value of the scheme assets	a	4,473	5,485
Present value of scheme liabilities		(5,358)	(5,379)
Scheme (shortfall)/surplus		(885)	106
Related deferred taxation at 30.0%		266	(32)
Net pension (liability)/asset		(619)	74
Funding level		83%	102%

Actuarial assumptions	Notes	2002	2001
Inflation assumption		2.5%	3.0%
Increase for pensions – members who left before 1 June 1995		3.5%	3.5%
Increase for pensions – members who left after 31 May 1995	b	3.0%	3.0%
Increase for non-GMP deferred pensions		2.5%	2.5%
Salary scale increase per annum		3.5%	4.0%
Discount rate for liabilities		5.5%	6.0%

Expected Investment Returns Asset Class	Proportion Invested		Expected Return	
	2002	2001	2002	2001
Equities	67%	65%	8.0%	7.0%
Fixed Interest	16%	28%	5.0%	5.0%
Other	17%	7%	4.0%	4.0%
Overall	100%	100%	6.8%	6.2%

The total pension costs for the Group were:	Notes	2002 £'000s	2001 £'000
Employer contribution to MSRBP (defined benefits)	c	–	–
Employer contribution to MSRBP and other plans (money purchase)	c	3,602	2,505

NOTES TO THE ACCOUNTS

28 Pensions (continued)

Under the transitional arrangements of FRS17 the effect of the standard is included by note only. The effects on the financial statements, when FRS17 is fully adopted will be as follows:

Amounts included within operating profit

	2002 £'000s
Current service cost	-
Past service costs	-
Total operating charge	-

Amounts included on other finance costs

	2002 £'000s
Expected return on scheme assets	341
Interest on pension scheme liabilities	(322)
Net finance return	19

Accounts to be included in the Statement of Total Recognised Gains and Losses (STRGL)

	2002 £'000s	% asset or liability value
Difference between actual and expected return of scheme assets	(1,153)	(25.8% on assets)
Experience gains arising on scheme liabilities	29	(0.6% on assets)
Effects of changes in assumptions underlying the present value of scheme liabilities	114	(2.5% on assets)
Total loss recognised in the STRGL	(1,010)	

Balance sheet presentation

	2002 £'000s	2001 £'000s
Net assets	70,280	63,743
Amount relating to defined benefit pension scheme (liability)/asset, net of related deferred tax	(619)	74
Net assets including FRS17 disclosure	69,661	63,817
Profit and loss reserve	35,318	31,227
Amount relating to defined benefit pension scheme (liability)/asset, net of related deferred tax	(619)	74
Profit and loss reserve including FRS17 disclosure	34,699	31,301

Notes

a: Represents the ongoing value of assets invested in managed funds operated by Scottish Equitable at the valuation date. The assets and liabilities relating to money purchase members are in addition to these figures.

b: Any pension which accrues in respect of service after 6 April 1997 will increase in line with inflation, subject to a maximum of 5% per annum.

c: In view of the funding position of the defined benefit section of MSRBP there was no requirement for an employer's contribution in the year and this is not expected to change. Employer's contribution for money purchase benefits remains unchanged at agreed standard rates.

NOTES TO THE ACCOUNTS

29 Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000s	2001 £'000s
Operating profit	15,691	19,588
Depreciation of tangible fixed assets	4,069	3,119
Amortisation of goodwill	3,116	1,478
Profit on sale of fixed assets	(166)	(80)
(Increase)/decrease in stocks and work in progress	(11,292)	231
Increase in debtors	(5,480)	(4,825)
(Decrease)/increase in creditors	(5,308)	16,648
Net cash inflow from operating activities	630	36,159

30 Analysis of net (debt)/funds

	31 December 2001 £'000s	Cash flow £'000s	Acquisition of subsidiary undertaking £'000s	31 December 2002 £'000s
Cash at bank	34,639	(27,790)	–	6,849
Finance leases	(854)	459	(407)	(802)
Loan notes	–	–	(7,161)	(7,161)
Total	33,785	(27,331)	(7,568)	(1,114)

31 Reconciliation of net cash flow to movement in net (debt)/funds

	£'000s
Decrease in cash	(27,790)
Cash outflow from decrease in finance leases	459
Changes in net funds from cashflows	(27,331)
Finance leases acquired with subsidiary undertaking	(407)
Loan notes raised	(7,161)
	(34,899)
Net funds at 1 January 2002	33,785
Net debt at 31 December 2002	(1,114)

NOTES TO THE ACCOUNTS

32 Directors' remuneration, interests and transactions

Directors' remuneration

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on pages 29 to 30.

Directors' interests

According to the register maintained as required by the Companies Act 1985, the interests of the directors in office at the end of the year are shown below and their interests in shares under the Long Term Incentive Plan are shown in the directors' remuneration report on page 30.

	2002 No.	5p Ordinary Beneficial	2001 No.
J C Morgan	6,241,013		6,226,801
J M Bishop	25,178		17,814
P Whitmore	2,250		2,250
B H Asher	5,000		5,000
G Gallacher	3,000		3,000
J J C Lovell	6,235,855		6,223,581
J Walden	-		-

No director had any non-beneficial interest in the ordinary shares or in the preference shares of the Company or in any shares of any Group company. As stated in the directors' remuneration report on page 28 it is not the Company's policy to grant share options to Main Board directors.

There have been no changes in the interests of directors between the year end and 11 February 2003.

Directors' transactions

There have been no related party transactions with any director either during the year or in the period to 11 February 2003.

Directors' material interests in contracts with the Company.

No director had any material interest in any contract with the Company or any Group company in the year or in the period to 11 February 2003.

33 Additional information on subsidiary undertakings, joint venture and associated undertaking

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and joint venture which affected the Group's results or net assets.

Subsidiary undertakings

Lovell Partnerships Limited

Morgan Lovell plc

Overbury plc

Vivid Interiors Limited

Backbone Furniture Limited

Bluestone plc

Morgan Est plc

Morgan Utilities Group plc

Morgan Sindall Investments Limited

*Stansell QVC Limited

Newman Insurance Company Limited

Activity

Affordable housing

The workplace specialist

Fitting out and refurbishment specialist

Retail and leisure fit out specialist

Furniture suppliers

Construction

Infrastructure services

Infrastructure services

Investment management

Construction

Insurance

Joint ventures

Primary Medical Property Limited (47.5%)

*Morgan-Vinci Limited (50%)

Development and investment of medical properties

Infrastructure services

All subsidiary undertakings are wholly owned unless shown otherwise and with the exception of companies marked * all shareholdings are in the name of Morgan Sindall plc. With the exception of Stansell QVC Limited, registered and operating in Jersey and Newman Insurance Company Limited registered in Bermuda, all undertakings are registered in England, which is the principal place of business.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held in the Conference Room, College Hill Associates, 4th floor, 78 Cannon Street, London, EC4N 6HH at 12 noon on Thursday, 27 March 2003 for the following purposes:

Ordinary business

1. To receive and adopt the Reports of the Directors and the Auditors and the Accounts for the year ended 31 December 2002.
2. To declare a final dividend of 10.75 pence per Ordinary Share.
3. To re-elect Ms G Gallacher as a Director.
4. To re-elect Mr J J C Lovell as a Director.
5. To approve the directors' remuneration report for the year ended 31 December 2002.
6. To re-appoint Deloitte & Touche as Auditors.
7. To authorise the Directors to fix the Auditors' remuneration.

Special business

To consider and if thought fit pass the following resolutions of which resolution 8 will be proposed as an Ordinary Resolution and 9 will be proposed as a Special Resolution.

8. That the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate amount of £437,918.75 such authority (unless previously revoked or varied) to expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.
9. That subject to the passing of the previous resolution, the Directors be and they are hereby authorised and empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority given in the previous resolution as if section 89(1) of the Act did not apply to such allotment, provided that such power be limited to:
 - i) the allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the Directors) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and
 - ii) the allotment (otherwise than pursuant to sub-paragraphs i) above and iii) below) of equity securities up to an aggregate nominal amount of £103,104.05; and
 - iii) the allotment of equity securities up to a total nominal amount of £31,680.15 in connection with the satisfaction of conversion rights attached to the 5.625% Convertible Cumulative Redeemable Preference Shares of £1 each currently in issue

and this power shall expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the Directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

By order of the Board

W R Johnston
Company Secretary
11 February 2003

Registered Office
77 Newman Street
London
W1T 3EW

NOTICE OF ANNUAL GENERAL MEETING

Notes

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on a poll in the member's place. A proxy need not also be a member of the Company. A form of proxy accompanies this notice.
2. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
3. In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.
4. To be effective, the form of proxy, together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof must be sent to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU to arrive no later than 12 noon on 25 March 2003.
5. Short biographical details of the directors seeking re-election are shown on page 23.
6. Service contracts of Directors will be available for inspection at 77 Newman Street, London, W1T 3EW during usual business hours on any business day from the date of this notice until the date of the meeting and for 15 minutes prior to the meeting at the Conference Room, College Hill Associates, 4th Floor, 78 Cannon Street, London, EC4N 6HH.
7. If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention there from.
8. The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those Ordinary Shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
9. **Resolution 8**
When resolution 8 in the notice of the Annual General Meeting is passed, the Board will have general and unconditional authority to allot 8,758,375 Ordinary Shares, which authority will expire fifteen months from the date on which this resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting. Of that number, 2,789,378 authorised but unissued Ordinary Shares will be reserved in respect of share options granted under the two Share Option Schemes which members have approved and to provide for the conversion of Preference Shares. Accordingly, following the passing of this resolution 5,968,997 Ordinary Shares, representing approximately 14 per cent of the issued Ordinary Share capital of the Company, will remain authorised, unissued and unreserved.
10. **Resolution 9**
In addition to the above, on the passing of resolution 9, the Board will have authority to allot equity securities up to an aggregate value of £103,104.05, representing approximately 5 per cent of the issued Ordinary Share capital of the Company, for cash otherwise than pro-rata to existing shareholders, which authority will expire fifteen months from the date on which the resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting of the Company. The Board will also have authority to allot equity securities in order to satisfy the conversion rights attaching to the Preference Shares. However, currently there is no intention to issue any further share capital otherwise than pursuant to the exercise of conversion rights in respect of the Preference Shares in issue and in the exercise of any options under the two Share Option Schemes.

CORPORATE DIRECTORY

Directors

J C Morgan (Chairman)
J M Bishop
P Whitmore
B H Asher (Non-Executive)
G Gallacher (Non-Executive)
J J C Lovell (Non-Executive)
J Walden (Non-Executive)

Secretary

W R Johnston

Registered Office

77 Newman Street, London W1T 3EW
Tel: 020 7307 9200
Fax: 020 7307 9201
Registration No. 521970

Solicitors

Charles Russell,
8-10 New Fetter Lane, London EC4 1RS

Auditors

Deloitte & Touche,
Stonecutter Court, Stonecutter Street,
London EC4A 4TR

Tax Advisors

Grant Thornton,
Grant Thornton House, Melton Street,
Euston Square, London NW1 2EP

Clearing Bankers

Lloyds TSB Bank plc,
Po Box 17328, 11-15 Monument Street,
London EC3V 9JA

Merchant Bankers

Close Brothers Corporate Finance Limited,
10 Crown Place, Clifton Street, London EC2A 4FT

Brokers

HSBC Investment Bank plc,
Level 18, 8 Canada Square,
London E14 5HQ

Registrars

Capita Registrars,
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

Shareholder communication

Enquiries and information – please contact the
Company Secretary, W R Johnston.
Direct line: 0207 307 9230
Direct fax: 0207 307 9202
E-mail: ray.johnston@morgansindall.co.uk

Website

www.morgansindall.co.uk

Share prices (FT Cityline)

Current buying and selling prices of the Company's shares,
can be obtained by dialling 0906 843 4027.

The EPIC code as used in the Topic and Datastream Share
Price information services is MGNS.

Financial Calendar

Annual General Meeting 27 March 2003

Ordinary shares

Final dividend:

Ex-dividend date	5 March 2003
Record date	7 March 2003
Payment date	2 April 2003

Interim results announcement August 2003

Preference shares

Dividend payment dates: 15 April 2003
15 October 2003

Next conversion date 30 June 2003

Form of Proxy

Name Please print:

Address Please print:

I/We, the undersigned, being (a) member(s) of Morgan Sindall plc, hereby appoint the Chairman of the Meeting
or

Name of Proxy/(see Notes 4 and 5) Please print:

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 27 March 2003 and at any adjournment thereof.

I/We direct the proxy to vote in respect of the resolutions to be proposed at the Meeting as indicated below. (see Note 7)

Signed Dated this day of 2003

Ordinary Resolutions	For	Against	Abstention
1 To receive and adopt the Reports of the Directors and the Auditors and the Accounts for the year ended 31 December 2002	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 To declare a final dividend of 10.75 pence per Ordinary Share	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 To re-elect Ms G Gallacher as a Director	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 To re-elect Mr J J C Lovell as a Director	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 To approve the directors' remuneration report for the year ended 31 December 2002	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 To re-appoint Deloitte & Touche as Auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 To authorise the Directors to fix the Auditors' remuneration	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Special Business Ordinary Resolution			
8 To authorise the Directors to allot shares	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Special Resolution			
9 To disapply the statutory pre-emption provisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Notes

- In order to be effective this Form of Proxy, duly completed and signed, together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof, must be sent to the address shown overleaf to arrive no later than 12.00 noon on 25 March 2003.
- If the appointer is a corporation this form must be executed under its common seal or under the hand of an officer or attorney duly authorised in that behalf.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- A member may appoint one or more proxies of his own choice in which case he should delete the reference to the chairman of the meeting and insert the name(s) of the person(s) appointed in the space provided.
- A proxy need not be a member of Morgan Sindall plc, but must attend the meeting in person to represent the member.
- Completion of a Form of Proxy will not prevent the holder(s) of Ordinary Shares from attending and voting at the meeting in person should they so wish.
- If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention there from.
- The Company, pursuant to regulation 34 of The Uncertificated Securities Regulations 1995, specifies that only those ordinary shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB122



Capita Registrars (Proxies)
P.O. Box 25
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR

FIRST FOLD

THIRD FOLD

HIGHLIGHTS

FINANCIAL

	2002	2001	%
TURNOVER	£1,038M	£909M	+14
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	£15.53M	£20.77M	-25
EARNINGS PER ORDINARY SHARE	25.32P	36.03P	-30
DIVIDENDS PER ORDINARY SHARE	15.00P	14.00P	+7
NET ASSETS	£70.3M	£63.7M	+10

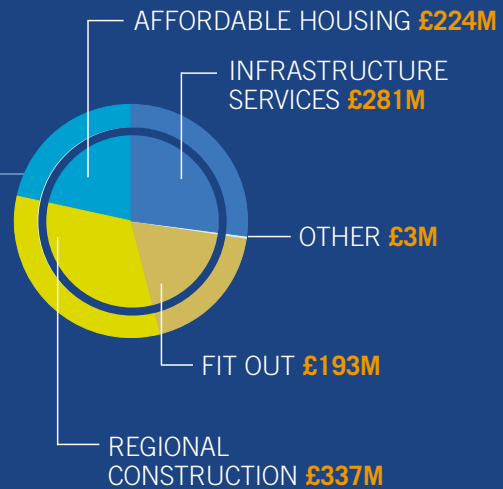
TURNOVER £M



PROFIT BEFORE TAX £M



TURNOVER ANALYSIS



OPERATIONAL

- SECOND MOST PROFITABLE YEAR IN GROUP'S HISTORY
- REGIONAL CONSTRUCTION RESTRUCTURE COMPLETED
- RECORD YEAR END ORDER BOOK OF OVER £1.3BN
- DIVISIONAL BALANCE IMPROVED WITH THE EXPANSION OF AFFORDABLE HOUSING AND INFRASTRUCTURE SERVICES
- BALANCE SHEET REMAINS STRONG AND EFFICIENT
- OPPORTUNITY FOR ORGANIC GROWTH

CHAIRMAN'S STATEMENT



2002 has been the second most profitable year in the Group's history with three Divisions recording strong or record results. For our fourth Division Regional Construction, it was a year of restructure. Whilst this resulted in, as forecast, a trading loss for the Division, future years will benefit from the improvements achieved. Turnover for the year was £1,038m (2001: £909m) and whilst earnings per share for 2002 were 25.3p compared to 36.0p in the previous year this still represents an 18% compound growth since 1995.

Looking at our four Divisions individually and collectively I believe the Group is now stronger than it has ever been. Acquired in January 2002, Pipeline Constructors Group, a utilities services provider, has been successfully integrated into Morgan Est enhancing its reputation as a leading infrastructure services business. Lovell grows in stature as the market leader in affordable housing, a sector attracting considerable profile and funding. Our Fit Out Division continues to perform well reflecting the strength of its brands. Bluestone is emerging as a recognised national construction brand serving both national and regional clients and delivering quality projects locally. This balance of activity over a broad range of types of construction activity, in both the public and private sector, welded together by a common culture and underpinned by a sound balance sheet is the key to the Group's strength. The Board's confidence in the underlying business is the basis for recommending an increase in final dividend to 10.75p making a total of 15.0p for the year (2001: 14.0p).

TRADING OVERVIEW

FIT OUT Overbury and Morgan Lovell have had another excellent year managing to maintain operating profit despite a 17% reduction in turnover, which occurred in the second half of the year. The reduction in the take up of office space has meant lower levels of new fit out work, a trend which will probably continue into 2003. However, the Division is seeing increased demand for refurbishment of used empty space for re-letting and for refurbishment 'in occupation' where companies seek to maximise usage of their existing space resource. Overall we go into 2003 with a £66m order book which is only £3m less than last year. Two new businesses, Vivid Interiors and Backbone Furniture, were established in the year, which will utilise the skill base and broaden the Division's market opportunities.

REGIONAL CONSTRUCTION During 2002 this Division has successfully merged the six regional brands into one national brand, Bluestone. This strategic step was essential to align the Division with the needs of the market and to meet the requirements of its customers in a consistent and coordinated way. Bluestone is increasingly establishing itself with its customers and suppliers and has a more rigorous and cost effective management structure. What is equally important to me is that Bluestone employees are excited by the opportunities the single brand and new structure offers. Bluestone's expanding skill set is increasingly providing access to a broader spectrum of customers who operate either nationally or locally and this flexibility represents one of the Division's key strengths. This, in conjunction with its controlled entry into the longer term public private partnerships, should see this Division return to profitability during 2003.

AFFORDABLE HOUSING Lovell has had another excellent year. Turnover was up 43%, operating profit increased to £6.0m from £4.3m and the order book has risen to £565m from £255m. Even more exciting from a longer term perspective are the projects currently at the planning stage. All of this has meant an increase in both personnel and investment but there is no doubt that Lovell has market leadership in its specialist field of mixed tenure affordable housing, a market where there is huge opportunity.



“LOOKING AT OUR FOUR DIVISIONS INDIVIDUALLY AND COLLECTIVELY I BELIEVE THE GROUP IS NOW STRONGER THAN IT HAS EVER BEEN.”

INFRASTRUCTURE SERVICES 2001 saw the establishment by acquisition of our Infrastructure Services Division and in January 2002 we added to it with the purchase of a utility services provider. The 2002 result, comprising turnover of £281m and operating profit of £6.5m, has therefore no meaningful prior year comparison but does show an early return on the £38m total investment. Morgan Est's main markets are within the public sector, with its strong presence in water, utilities, tunnelling and specialised civil engineering projects. The sizeable order book is a reflection of the partnering culture that is increasingly used in this sector of the construction industry and by Morgan Est. There is still much to be achieved in terms of margin and working capital management but we see infrastructure services as a strong market offering us exciting opportunities.

FINANCIAL

The development of the Group has impacted on the balance sheet and cash profile. Historically the Group only had Divisions that were cash generative and supporting activities such as property investment and development were undertaken to maximise returns on surplus cash. Recent acquisitions have utilised these cash surpluses and with our Affordable Housing Division we have opportunity for profitable reinvestment of future cash flows. Whilst the 2002 balance sheet shows net cash of £6.8m, during the year we have utilised modest overdraft facilities. Looking forward I believe the Group cash profile will be cash generative with retained profits sufficient to finance growth in Affordable Housing. Working capital fluctuations, particularly from Infrastructure Services, will continue to be covered by our existing banking overdraft facilities. This is a sustainable financial model and creates a more efficient balance sheet structure.

CORPORATE SOCIAL RESPONSIBILITY

In 2002 we established a top level committee comprising representation from main board and senior operational management to emphasise the importance within the Group of adopting a proactive approach to environmental, health and safety and social responsibility issues. Whilst the primary objective of any company must be to generate shareholder value we firmly believe that there is a valid business case for increasing the Group's commitment in this area rather than merely conforming to legal and industry minimum requirements. The Group cannot ignore the impact of its activities on the community but by responsible and positive behaviour it should in turn gain from reciprocal fair treatment from employees, clients and suppliers. Further details of our policies and health and safety statistics are included in the Directors Report on pages 24 to 26.

OUTLOOK

We are already experiencing some reduction in demand from the private sector economy which has affected both our Fit Out and Regional Construction Divisions. On the other hand expenditure in the public sector is forecast to increase and our year end order books in both Affordable Housing and Infrastructure Services have never been higher. The hard decisions made in 2002 have created a stronger business. We have industry leading positions in specific segments where the Group will benefit from its competitive advantage and as such I remain hugely optimistic for the prospects of the Group.

John Morgan
Executive Chairman

11 February 2003



FITOUT

THE DIVISION HAS FURTHER EXTENDED ITS CAPABILITY AND MARKET REACH BY CREATING TWO NEW BRANDS, VIVID INTERIORS AND BACKBONE FURNITURE.

- Left: **Trafigura, London**
Design and fit out of two floors of office space.
- Right: **IBM, Southbank, London**
Refurbishment, whilst in occupation, of five floors of office space, reception area, restaurant and conferencing suite.



OVERVIEW

OVERBURY

MORGAN LOVELL
THE WORKPLACE SPECIALIST

vivid interiors

backbone
furniture

- Operating profit of £10.5m on turnover of £193m
- Continuous improvement initiative ‘Perfect Delivery’ continues to result in a high level of repeat business, measured client satisfaction and consistent profitability
- Responding to a high demand for refurbishment of occupied offices as companies seek to maximise efficient use of space
- Overbury completed its largest office refurbishment ‘in occupation’ of 18,500m²
- Expansion of the Division with two new brands, Vivid Interiors and Backbone Furniture
- Committed to improving supply chain relationships



- Far left: **Baker & McKenzie, London**
Refurbishment of second floor office space and first floor staff restaurant area.
- Left: **Sun Microsystems, London**
Refurbishment of two floors of office space including new reception areas.
- Right: **The National Film Theatre, London**
Refurbishment of front of house facilities including ticket office, information desk and restaurant areas.

TURNOVER £'000s 2002: 192,934 2001: 232,513
OPERATING PROFIT £'000s 2002: 10,483 2001: 10,717

The reduction of the office market in 2002 meant lower levels of work and greater competition for the Fit Out Division. Despite this the Division has achieved a high level of consistent performance resulting in an operating profit of £10.5m.

Overbury and Morgan Lovell continue to respond well to the dynamics of the office market. Sectors targeted in the public and private markets have secured a consistent workload for both these companies. Morgan Lovell has won £12m of public sector work and expects to further increase its penetration, being well placed to provide the service and value demanded.

As is usual at this stage of the economic cycle the Division is now seeing more demand for refurbishment in occupation as companies seek to sublet or use space more effectively.

Central to the quality of the service offered is the Division's continuous improvement initiative 'Perfect Delivery'. This places the Fit Out Division ahead of the industry in terms of its service delivery and drives business improvement across the Division resulting in a high level of repeat orders, measured client satisfaction and consistent profitability. 2002 saw the launch of the 'Perfect Delivery' initiative in Morgan Lovell and Vivid Interiors and it was the fourth year of development within Overbury, where perfectly delivered projects included the largest single refurbishment 'in occupation' project carried out to date. This highly complex logistical project for IBM took six months to plan and 18 months to carry out and involved the refurbishment of 18,500m² of space.



The Division has further extended its capability and market reach by creating two new businesses, Vivid Interiors and Backbone Furniture. Vivid Interiors was formed in March 2002 and provides fit out and refurbishment for the retail, leisure and entertainment sectors. Backbone Furniture was formed in October 2002 as an independent supplier of furniture for commercial interiors.

A commitment to improving relationships throughout the supply chain is being actively pursued to ensure that it is consistent, reliable, efficient and non-confrontational. The past year has seen the Division introduce many new initiatives. The most notable of these is to become the first contractor in the fit out market to operate a 'No Retentions' scheme. This has involved the introduction of an approved trade contractor scheme to forge long term relationships with suppliers and subcontractors.

Fit Out has built on its 25 years as the market leader, extending both its capability and quality of delivery. This places the Division in a strong position to return a sound performance in 2003 despite expected tougher market conditions.

CONTRACT PROFILE

OVERBURY

Specialist in the fit out and refurbishment of offices.

155 projects completed in 2002. Projects included a 75 week £17m refurbishment in occupation for IBM, and a 7 week £0.12m refurbishment for Allied Insurance Services. The average project size in 2002 was £0.98m with an average project duration of 14 weeks.

MORGAN LOVELL

Design, fit out and refurbishment of offices for end user clients.

102 projects completed in 2002. Projects included a 19 week, £1.3m office design and refurbishment whilst in occupation for URS in Bedford, and a 20 week design and fit out of Citadel Investment Group offices in the City of London.

VIVID INTERIORS

Fit out and refurbishment for the retail leisure and entertainment sectors.

Five projects completed in 2002 including a 10 week refurbishment of front of house facilities at The National Film Theatre on London's Southbank.

BACKBONE FURNITURE

Furniture services for commercial interiors.

Formed in October 2002, one contract completed.



REGIONAL CONSTRUCTION

THIS YEAR SAW THE SUCCESSFUL CREATION
OF THE GROUP'S REGIONAL CONSTRUCTION
BRAND, BLUESTONE.



- Left: **Institute of Astronomy**
A new two story extension.
- Right: **Old Church Street**
A high quality luxury residence:
a vicarage and church hall with
vergers apartments.



OVERVIEW



- Successful creation of the Group's regional construction brand Bluestone from six regional companies
- National coverage from 25 regional offices and 1,400 people
- Bluestone's positioning is in a less competitive market
- Repeat business increased with more negotiated work
- Focus on establishing longer term client relationships

TURNOVER £'000s 2002: 337,027 2001: 402,609
 OPERATING RESULT £'000s 2002: (4,952) 2001: 4,034



- Left: **St Clare Street**
Office refurbishment with new external cladding.
- Right: **Petersham Road**
Residential development on the River Thames.

This year saw the successful creation of the Group's regional construction brand, Bluestone by the merger of our six regional companies. This has been carried out in a remarkably short period through the commitment of our workforce and supported by major IT upgrades and systems integration.

Bluestone is quickly establishing itself as an important player across England and Wales and has 25 regional offices employing 1,400 people. It has positioned itself in the less competitive market for national delivery of smaller to medium value contracts.

Turnover has been controlled as the business re-focuses on its target markets. The effect of these changes impacted the first half result when the Division reported a £4.0m loss. In the second half a further £1m loss was incurred as the restructure was completed, however the underlying performance demonstrates clear signs of recovery which is set to continue.

Repeat business increased with Bluestone winning more work this year from key clients who include BUPA, Langtree Group plc, Pegasus Retirement Homes and international leisure park specialists, Center Parcs. Following the completion of the "Aqua Sana" project at Sherwood Forest for Center Parcs, Bluestone won further negotiated work to build a similar new facility in Elveden, East Anglia.

In 2002 Bluestone was one of six firms selected by Devon County Council to participate in a £200m major building projects framework, a five-year programme to upgrade schools, libraries and care centres. The Division's leading expertise in large industrial warehouse construction was highlighted with the award of a £14m contract to build a 350,000 sq.ft. warehouse for major DIY supplier Screwfix in Stoke-on-Trent. The facility, which could accommodate up to eight football pitches, is the first fully automated high-bay warehouse in the country.

In London, Bluestone completed the sixth and final Quinlan Terry designed villa on the Regent's Park Canal, part of a 14-year construction project which started in 1988. The internal finishes are of the very highest standards and feature stone and slate floors, ornamental fireplaces and enriched plastered ceilings.



At St. Edmundsbury Cathedral, Bury St. Edmunds, Bluestone has been building the north transept, cloister, choir aisle, crypt chapel and main tower. All materials and work specifications are aimed at a building lifespan of at least a thousand years.

In healthcare, Bluestone has won several projects and has recently topped out the £8.3m renal unit for the Royal Sussex County Hospital. As the contracting partner in a consortium Bluestone has entered the Government's innovative 25 year NHS Local Improvement Finance Trust initiative (NHS LIFT). This public private partnership programme is for the modernisation of primary health and social care premises across the UK. Bluestone has been short-listed on its first two submissions for Barnsley and Camden & Islington NHS LIFT schemes.

Bluestone's technical skills were acknowledged by the winning of *The Prime Minister's Award for Better Public Building*, which was awarded to Bristol City Learning Centres at Brislington. Following in the footsteps of last year's winner, Tate Modern, the centres have been recognised for excellence of design, construction, financial management and relationship to the local community. The eye-catching centres were built from original designs to completion in ten months.

The Division also joined a national initiative with other major UK construction providers, in *Partners in Constructing a Safer Environment*, which aims to educate both directly and indirectly employed construction workers on health and safety and create opportunities for workers to gain additional qualifications. Bluestone has received a number of Health and Safety awards, including two Gold awards from the Royal Society for the Prevention of Accidents (RoSPA), in recognition of its commitment to continuous Health and Safety improvement.

Bluestone sees the latest market developments and changes in customer procurement routes as a very exciting challenge. The Division is working at a pace to ensure that it is properly positioned to take full advantage in 2003 and beyond. The development of its ability to work in partnership with its customers, consultants and supply chain will increasingly distinguish it from the competition. A great deal of work has already been done, and there is a great deal more to do, but Bluestone approaches the future with genuine enthusiasm and vigour.

NOTABLE CONTRACTS

CENTER PARCS A £2.6m contract to build a new leisure facility at Elveden Forest Holiday Village in East Anglia.

KINGS COLLEGE CAMBRIDGE A £5.3m refurbishment of Grade II listed student accommodation and retail units in the centre of Cambridge.

BUPA A £4.5m scheme to build an operating theatre and extend outpatient and day-care departments at BUPA Hospital's Roundhay Hall site in Leeds.

STOKE-ON-TRENT REGENERATION A £14m high-bay newbuild distribution centre project in Stoke-on-Trent for end users Screwfix.

WEST SUSSEX COUNTY COUNCIL A £7.5m school at Crawley for children with special needs.

QUEEN ELIZABETH II HOSPITAL A £2.5m ward refurbishment at Kings Lynn, Norfolk.

BRISTOL CITY COUNCIL A £2.2m project for two state-of-the-art learning centres using innovative design and fast track construction.

UNIVERSITY COLLEGE LONDON An £8.7m project to build the new London Centre for Nanotechnology.

MARSTON HOTEL GROUP A £5.5m extension to the Hampshire Centrecourt Hotel at Basingstoke.



AFFORDABLE HOUSING

BY THE MIDDLE OF 2003, LOVELL WILL
BE REFURBISHING PROPERTIES ACROSS
THE UK AT A RATE OF MORE THAN 2000
PER MONTH.

- Left: **Central Park**

A flagship regeneration project of 300 mixed tenure houses in central Birmingham, highlighting Lovell's approach to design quality.

- Right: **Company Mentoring Scheme**

A national initiative pioneered by Lovell to raise the profile of the construction industry with 14-18 year olds.



OVERVIEW



- Record £565m order book and profit up to £6.0m
- Ground breaking £20m mixed tenure development secured in Scotland
- Appointed preferred bidder for a £40m PFI pathfinder project
- *Affordable Housing Provider of the Year* award for the second year in a row
- East Anglia regional office established
- Government's *Decent Homes Standard* initiative will generate £9.5bn of refurbishment work over the next 7 years
- Regeneration and cross subsidy schemes favour the Lovell approach



- **Left: Regents Park Estate**
A £12m demonstration partnering project with the London Borough of Camden to undertake major refurbishment works to over 30 blocks of high and medium rise flats.
- **Right: Waynflete Square**
A fast track development of 11 flats on a very difficult city centre site, promoting the use of prefabricated concrete panels.

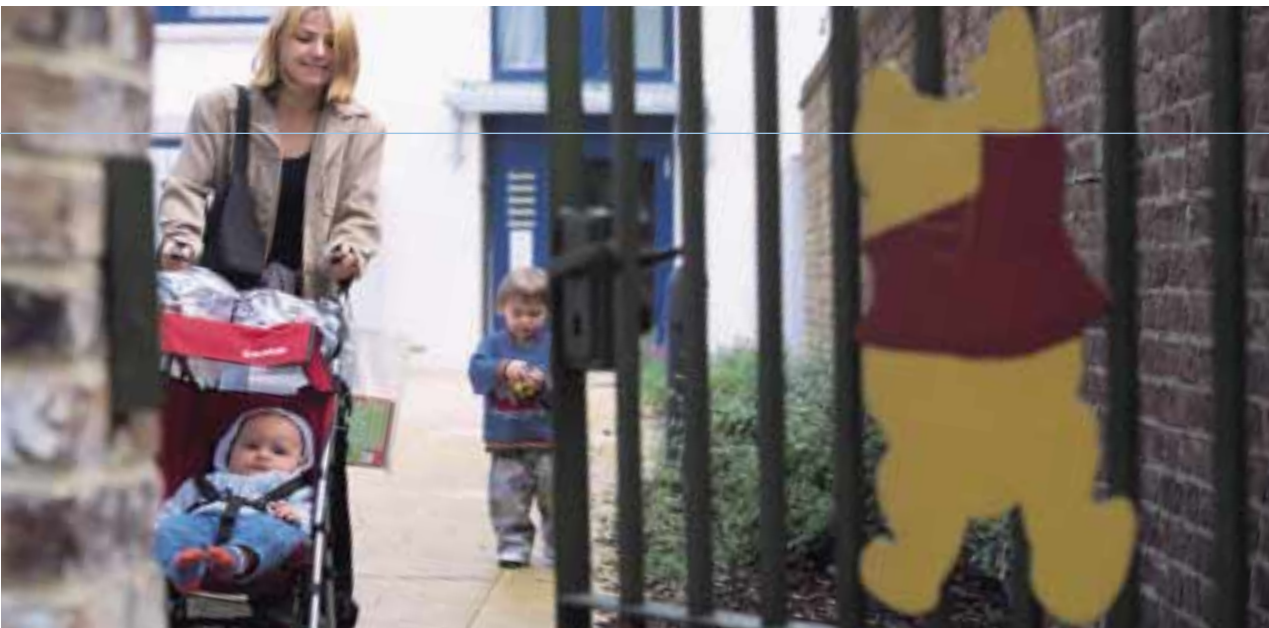
Lovell has had its best year on record with a 43% increase in turnover and operating profit up to £6.0m from £4.3m. The order book has grown to £565m from £255m and employee numbers have increased to over one thousand.

The Group's Affordable Housing Division is well positioned to benefit from current Government plans. Recognising the very poor condition of a large number of traditional council properties, the Government has established the *Decent Homes Standard*, which has set a target of 2010 for every social rented home in the country to meet this standard. This has resulted in a number of initiatives to fund these works, such as PFI and large scale stock transfers to Housing Associations. The Government is also trying to address the increasing demand for affordable homes, particularly in London and the South East and kick-start regeneration in areas of severe deprivation through programmes such as 'Market Renewal' and 'New Deal for Communities'.

Working from eight regions in England, Scotland and Wales with 11 local offices, Lovell has the experience, expertise and capacity to meet this increasing demand for refurbishment and new build mixed tenure opportunities. By the middle of 2003, Lovell will be refurbishing properties across the United Kingdom at a rate of more than 2,000 per month.

In 2002, Lovell won its first mixed tenure development scheme in Scotland having been selected as preferred developer for a £20m mixed tenure development in Southhouse, Edinburgh. The project is in partnership with Home in Scotland, Edinburgh City Council and the Southhouse and Burdiehouse Residents Organisation. Lovell has been appointed preferred bidder by North East Derbyshire District Council for the £40m PFI Pathfinder Project which has a construction value of £20m. This is for the refurbishment of 530 council houses in a former coalfield area over two and a half years.

TURNOVER £'000s 2002: 223,558 2001: 155,971
OPERATING PROFIT £'000s 2002: 5,965 2001: 4,292



In London, Lovell was selected as part of the Metropolitan West Hendon Consortium to build 2,000 homes in a £275m estate regeneration scheme for Barnet Council.

Lovell is skilled in cost modelling and cross subsidy arrangements to fund community activities, buildings and affordable rented housing. It is also committed to local labour and apprentice training with a detailed range of innovative training initiatives. Training solutions include the 'Craft Management Academy', a pioneering approach to apprentice training and the 'Company Mentoring Scheme', a partnership between regional offices and local secondary schools to raise the profile of the construction industry and which aims to attract talented individuals into the industry.

Expanding its regional operations, Lovell has established an East Anglian office. Housing demand in the region is expected to rise significantly with 25% household growth forecast over the next 20 years compared with 19% nationally.

For the second year in a row, Lovell has won the prestigious *Affordable Housing Provider of the Year* award at the 2002 Building Homes Quality Awards.

2002 has been an excellent year and sees Lovell well placed in a growth market through 2003 and beyond.

NOTABLE CONTRACTS

FIRST MIXED TENURE DEVELOPMENT scheme in Scotland for a three year £20m scheme at Southhouse, Edinburgh. The project will provide 111 homes for open market sale, 37 for rent as well as refurbishing 176 flats and undertaking major environmental works.

SOCIAL HOUSING PFI PATHFINDER project, as part of the Village Homes consortium, having been appointed preferred bidder by North East Derbyshire District Council for a £40m project to refurbish and maintain 530 council houses in a former coalfield area over a 30 year period.

IN LONDON, Lovell has been selected as part of the Metropolitan West Hendon Consortium to build 2,000 homes in a £275m estate regeneration scheme for Barnet Council.

BOWLEE PARK HOUSING ASSOCIATION Lovell is the developer for a £40m housing regeneration programme in Langley, Greater Manchester.

TOWER HAMLETS HOUSING ACTION TRUST A £40m scheme in partnership with The Guinness Trust to build 262 flats and houses in Bow, East London.

CASTLE VALE HOUSING ACTION TRUST A £20m design and build project to create 237 homes at Castle Vale, Birmingham.



INFRASTRUCTURE SERVICES

2002 HAS BEEN A LANDMARK YEAR FOR MORGAN EST.

- Work progressing on the £21m improvements to the United Utilities flagship clean water treatment plant near Kendal.



OVERVIEW

morgan=est

- Turnover has grown to £281m with an order book in excess of £550m
- Morgan Est operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering projects in both the public and private sector
 - One of the largest contractors in the water industry
 - Principal tunnelling contractor in the UK with its own pre-cast concrete factory and design office
 - Won a third contract on the Channel Tunnel Rail Link with a value of £178m
- A market leader in partnering arrangements, its culture of ‘Early Solutions Together’ has led to strong long term client relationships

– TOP INDUSTRY AWARDS

*Civil Engineering Contractor of the Year and Silver Helmet Award for Safety from the Contract Journal
RoSPA Sector Award for the Construction Industry
Contractor of the Year at the Tunnelling Industry Awards
SEPA Habitat Enhancement Initiative Award*



TURNOVER £'000s 2002: 280,565 2001: 95,384
OPERATING PROFIT £'000s 2002: 6,548 2001: 2,662

2002 has been a landmark year for Morgan Est, which now has over two thousand employees. Turnover grew to £281m with a forward order book in excess of £550m. The business operates through the core disciplines of water, utilities, tunnelling and specialised civil engineering and has secured large contracts, which include Channel Tunnel Rail Link contract - CTRL 310, Heathrow Airport Airside Road Tunnel and Terminal 5 Tunnels and projects in the United Utilities Asset Management Programme (AMP 3).

Through Morgan Water and Morgan Utilities the Division has established itself as one of the single largest contractors in the water industry with well established joint venture partnerships and two major additional framework agreements, one of which is a £250m project for United Utilities over three years for asset management of 200 waste water, clean water and sewerage projects. Morgan Water is well placed for 2003 to secure further framework agreements and to extend its total capability offering. The Division is working closely with its clients on the next phase of five year maintenance contracts (AMP 4) which are due to start in 2004/5.

Since the January 2002 acquisition of a leading national utilities provider, Pipeline Constructors Group, Morgan Utilities has grown significantly and has successfully moved into key parts of electricity services. In 2003, further penetration is planned into the electricity market with the biggest growth potential in the electricity distribution sector which has upwards of £1bn annual expenditure in areas that Morgan Utilities can strongly compete.

- The award winning Medway River Crossing which forms part of the Channel Tunnel Rail Link.



Morgan Tunnelling remains the principal tunnelling contractor in the UK. It is in a joint venture with Vinci Construction Grands Projets to construct the £150m tunnels associated with the Terminal 5 Project at Heathrow Airport. At King's Cross, Morgan Tunnelling has also started a two and a half year scheme to design and construct new passageways between King's Cross, St Pancras and Thameslink for London Underground Limited. Technological advancements developed by Morgan Tunnelling will speed up the construction of concrete sprayed lined tunnels and with the establishment of a pre-cast concrete plant, Morgan Tunnelling now offers a complete design, technical and manufacturing service.

Morgan Civil Engineering has continued to deliver a strong performance winning a third contract on the Channel Tunnel Rail Link project to build three viaducts and railway works between Dagenham and Thurrock at a value of £178m. Success also came with the £55m PFI road project to provide, maintain and operate the Newport Southern Distributor Road for Newport City Council. With the planned Government spending on road and rail projects as part of the £180bn 10 year investment plan for transport, Morgan Civil Engineering is in a strong position to capitalise on current market opportunities.

In 2002, Morgan Est took two industry awards at the Contract Journal Awards - Civil Engineering Contractor of the Year and the Silver Helmet Award for Safety. Recognition was also received from RoSPA for outstanding performance in health and safety by a company or organisation within a particular industry or sector.

The Division starts 2003 with a long order book which reflects the strength and depth of the relationships with its clients. This together with the Government's commitment to major infrastructure investment, provides Morgan Est the opportunity for long term sustainable growth.

NOTABLE CONTRACTS

UNITED UTILITIES A three-year framework agreement with joint venture partners Barhale and Harbour & General Works for the delivery of a significant part of United Utilities remaining AMP 3 programme. The programme comprises 200 individual wastewater, clean water and sewerage projects with total value of £250m located in North Lancashire and Cumbria.

SEVERN TRENT A three-year, £85m contract for the repair and maintenance of the water distribution network, the sewerage network and associated reinstatement activities in Derbyshire, Nottinghamshire, Warwickshire and Northamptonshire.

UNION RAILWAYS (NORTH) £178m CTRL 310 joint venture to design and construct three viaducts and railway works for the Channel Tunnel Rail Link between the London tunnels at Dagenham and Thames tunnel at Thurrock.

HEATHROW AIRPORT AIRSIDE ROAD AND TERMINAL 5 TUNNELS Morgan Tunnelling is in a joint venture with Vinci Construction to construct the tunnels associated with the Terminal 5 Project at Heathrow Airport. The £150m contract, which includes the Heathrow Express and Piccadilly Line extensions, started in April and is due for completion in 2005.

NEWPORT SOUTHERN DISTRIBUTOR ROAD A £55m PFI project for the provision, operation and maintenance of a distributor road including a river crossing.

BOARD OF DIRECTORS



JOHN MORGAN



JOHN BISHOP



PAUL WHITMORE



BERNARD ASHER



GERALDINE GALLACHER

**JOHN MORGAN (47) EXECUTIVE CHAIRMAN
RETIREMENT BY ROTATION 2005**

Founded Morgan Lovell together with Jack Lovell in 1977. He was appointed Chief Executive of Morgan Sindall plc in 1994 and Executive Chairman at the Annual General Meeting in 2000.

**JOHN BISHOP (57) FINANCE DIRECTOR
RETIREMENT BY ROTATION 2004**

A Chartered Accountant with 20 years board experience in UK quoted companies. On the creation of Morgan Sindall Group in 1994, he joined the board initially as Corporate Development Director, and became Finance Director in June 1998.

**PAUL WHITMORE (48) COMMERCIAL DIRECTOR
RETIREMENT BY ROTATION 2005**

Joined the board in April 2000 having undertaken various roles during 27 years in the construction industry, latterly as Chief Executive of Laing Construction plc.



JACK LOVELL



JON WALDEN

**BERNARD ASHER (66) SENIOR NON-EXECUTIVE
RETIREMENT BY ROTATION 2004**

Appointed to the Board in March 1998 and recognised as the senior Non-Executive Director since 1999. Chairman of Lonrho Africa plc. Vice-Chairman of the Court of Governors of The London School of Economics, Non-Executive Director of Legal & General Group plc, Remy Cointreau and Randgold Resources. Formerly a director of HSBC plc.

**GERALDINE GALLACHER (43) NON-EXECUTIVE
RETIREMENT BY ROTATION 2003**

Appointed to the Board in May 1995. Founder and Managing Director of The Executive Coaching Consultancy having formerly been head of Group Management Development for Burton Group plc (now Arcadia plc).

**JACK LOVELL (47) NON-EXECUTIVE
RETIREMENT BY ROTATION 2003**

Co-founder with John Morgan of Morgan Lovell in 1977 and a member of the Board of Morgan Sindall plc since October 1994 with executive responsibilities for marketing and latterly, client services. He assumed a Non-Executive role from August 2001.

**JON WALDEN (49) NON-EXECUTIVE
RETIREMENT BY ROTATION 2005**

Joined the Board with effect from May 2001. He is a main Board Director of Lex Service plc and Managing Director of Lex Vehicle Leasing. Previously he held various roles within Lex and also at Rank Xerox having qualified as a Chartered Accountant at Touche Ross (now Deloitte & Touche).

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report to the members together with the audited accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

Morgan Sindall is a construction group with four main Divisions - Fit Out, Regional Construction, Affordable Housing and Infrastructure Services. The principal subsidiary companies operating within this divisional structure are shown on page 59. All activities are carried out in the United Kingdom and the Channel Islands.

RESULTS AND DIVIDENDS

The Group made a profit for the year, after taxation, of £10.392m (2001: £14.234m). The final dividend for the year recommended by the directors is 10.75p per ordinary share, which together with the interim dividend of 4.25p per ordinary share gives a total dividend for the year of 15p per ordinary share (2001: 14p). Preference dividends paid or accrued amounted to £0.128m (2001: £0.190m).

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A general review of the Group's activities, development and future prospects is included in the Chairman's Statement on pages 4 to 5 and in the Divisional Reviews on the pages immediately following.

FIXED ASSETS

External professional valuations of the Group's investment properties were carried out as at 31 December 1999. The directors have considered the carrying value of the Group's interests in property and consider that there is no substantial difference between market and balance sheet values.

DIRECTORS

The directors at the date of this report, all of whom held office throughout the year, are shown on page 62. Further information on the Group Board's constitution, policies and procedures is set out under Corporate Governance on pages 31 to 33.

Geraldine Gallacher and Jack Lovell are the directors to retire by rotation and, being eligible, offer themselves for re-election. Biographical details of the retiring directors are shown on page 23.

NON-EXECUTIVE DIRECTORS

A short biographical note on each non-executive director is shown on page 23. The role and responsibilities of the non-executive directors have been formally established by the Board. Further information on these matters may be found under Corporate Governance on pages 31 to 33.

SUBSTANTIAL SHAREHOLDINGS

Excluding directors (whose shareholdings are shown on page 59) the following shareholdings representing 3% or more of the issued ordinary share capital have been notified to the Company as at 11 February 2003:

	Number of Shares	Percentage Holding
Aviva plc/Morley Fund Management Ltd	2,945,930	6.96%

EMPLOYMENT POLICIES

The Company insists that a policy of equal opportunity employment is demonstrably evident throughout the Group. Selection criteria and procedures and training opportunities are designed to ensure that all individuals are selected, treated and promoted on the basis of their merits, abilities and potential. Subject to the nature of its businesses in the construction industry, the policy of the Company is to ensure that there are fair opportunities in the Group for the employment, training and career development of disabled persons including continuity of employment with re-training where appropriate.

The Company recognises the need to ensure effective communication with employees. Policies and procedures have been developed in the Group taking account of factors such as location and numbers employed. Further information is included in the section on Corporate Social Responsibility later in this Report.

PENSIONS

Details of the pension scheme operated for the permanent salaried staff of the Group are shown in note 28 on pages 56 and 57. A stakeholder pension facility is provided for employees not eligible for membership of the pension scheme referred to above. The facility the Group offers is the B & CE Easybuild scheme administered by the Building & Civil Engineering Benefits Trust, long established as a supplier of employee benefits in the construction industry.

CORPORATE SOCIAL RESPONSIBILITY ('CSR')

During the course of 2002, the Group has increased its commitment to improving standards in environmental, health and safety, and social responsibility issues. It was decided to consolidate these areas of activity under a Corporate Social Responsibility Policy, which has since been published and is available to employees on the Group's intranet.

REPORT OF THE DIRECTORS

The Board has established a CSR Forum, chaired by Geraldine Gallacher (non-executive Director), supported by the Group Commercial Director, Paul Whitmore, together with representatives of the four Group Divisions.

A target measure the CSR Forum has set the Divisions is to achieve accreditation under each of the following three internationally recognised schemes:-

ISO 9001	Quality Management System
ISO 14001	Environmental Management System
OHSAS 18001	Occupational Health and Safety System

A realistic date for achieving the target is the end of 2004. During 2002 Morgan Est has achieved full accreditation under all three of the schemes. The remainder of the Group are at varying stages of accreditation and have individual plans to achieve comparable accreditation within the target timeframe.

As part of the aim of becoming an 'Employer of Choice', the CSR Forum has undertaken the planning stage of the Group's first ever Employee Climate Survey which will be conducted in February this year. 2002 also saw the introduction within Bluestone of the Employee Assistance Programme run by Coultts Care. This provides employees with access to a confidential help-line over which they can discuss a range of issues including personal, legal, tax and financial matters and aspects of their work and career. Initial feedback on the use of the facility has been very encouraging and a wider application of the service is being considered.

HEALTH AND SAFETY

Paul Whitmore is the director responsible for Group health and safety matters. The Group's Health and Safety Policy is available to all employees on the Group's intranet. The Board recognise and acknowledge the fundamental importance of health and safety in its business and in the construction industry.

The Group's Health and Safety Policy states:

"Morgan Sindall plc and its subsidiary companies are committed to providing a healthy and safe working environment for all the Group's employees and others affected by our works.

We accept the aims and provisions of the Health and Safety at Work Act 1974 and all regulations made thereunder. We recognise that the successful management of health and safety contributes to overall performance in a quality business.

We are therefore committed to:

- Developing a positive health and safety culture throughout the organisation.
- Constantly reviewing health and safety management and performance in accordance with the objectives identified by the Group's Policy.
- Developing organisational structures appropriate to meeting those objectives in each operating location within the subsidiary companies.
- The systematic identification and management of risks to health and safety and the environment.
- Providing the information, instruction, training, supervision and consultation with employees and clients as necessary to implement and maintain industry standards of excellence in all matters in the field of health and safety.

Every employee of the Group is expected to give full co-operation and every possible assistance to the successful implementation of the health and safety policies and procedures within their respective companies and to take reasonable care for their own safety and that of others involved in or affected by our works".

Through an active programme of continuous improvement, the Group remain committed to the objectives of the Major Contractors Group (MCG) Health and Safety Charter, the key components of which are:-

- A target reduction of 10% year on year in the incidence rate of all reportable injuries and dangerous occurrences until 2010.
- A fully qualified workforce by the end of 2003.
- A site specific induction process before anyone is allowed to work on site.
- All workers being consulted on health and safety matters in a three-tier system based on project, work gang and individual workers.
- Holding best practice workshops on health and safety practices and setting up a system to disseminate lessons learnt.
- Publishing an annual report of members' safety performance.
- Supporting the Construction Confederation's aim of reducing the incidence rate of work related ill health in the construction industry by 10% year on year from January 2003.

REPORT OF THE DIRECTORS

The Group continues to participate in the MCG reporting programme on a monthly basis. The table below shows a comparison of the Group's performance against the MCG average of all their members:

Accidents Category	MCG Member Average		Morgan Sindall	
	2002	2001	2002	2001
Fatal (Number)	8	10	-	1
Major Incidents (AIR)*	313	293	208	132
Over 3 day Incidents (AIR)*	791	779	787	627
Total of all reportable Incidents (AIR)*	1,201	1,077	995	814

These figures relate to years ending on 31 March.

*Accident Incidence Rate (AIR) is per 100,000 employees and is calculated as: $\frac{\text{number of reported incidents}}{\text{average number of persons}} \times 100,000$

The Group continues to perform above the average of its peer group albeit it has not succeeded in 2002 in its target reduction of 10% of reportable injures and dangerous occurrences.

CREDITOR PAYMENT POLICY

The Company's policy is to:

1. use unamended terms of widely recognised Standard Forms of Contract drawn up by bodies representing participants in the industry;
2. clearly agree and set down the terms of payment with suppliers and subcontractors; and
3. make payments in accordance with its obligations.

Calculated in accordance with regulations made under the Companies Act 1985, as at 31 December 2002, the Group's number of creditor days outstanding was 26.

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the year charitable contributions amounted to £14,335 (2001: £14,529). No contributions were made to any political parties during the current or preceding years.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday, 27 March 2003. The notice of the meeting is set out on page 60 of this Annual Report. The notice contains items which are special business, being the authorities for the Board to allot equity securities. Explanatory notes on the special business items are shown on page 61.

In addition, a new item of ordinary business is included being the approval of the directors' remuneration report.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the Annual General Meeting.

By order of the Board

W R Johnston
Company Secretary

11 February 2003

REMUNERATION REPORT

INTRODUCTION

This report incorporates the changes brought in by Statutory Instrument 2002 No 1986 –The Directors' Remuneration Report Regulations, which came into force on 1 August 2002.

The regulations require the auditors to report to the Company's members on the auditable part of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared. This report has therefore been divided into separate sections for unaudited and audited information.

UNAUDITED INFORMATION

The remuneration committee comprises:
G Gallacher (Chairman)
B H Asher
J Walden

As recommended in the Combined Code, John Morgan, Executive Chairman of the Company assisted the remuneration committee in their deliberations on executive director remuneration.

No material assistance was taken in the year from external sources with the exception of legal advice from Charles Russell Solicitors, relating to the administration of the Long Term Incentive Plan and the Employee Benefits Plan.

POLICY ON EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of the executive directors is determined by the remuneration committee ("the committee") taking full account of the Combined Code appended to The Listing Rules issued by the Financial Services Authority.

The committee seeks to develop remuneration packages which satisfy the following principles:

- to attract, retain and motivate the best possible person for each position;
- to recognise the importance of achieving the expectations of performance in the short and long term to ensure the success of the Group relative to other UK businesses of similar size and complexity;
- to reward directors fairly for their contributions whilst remaining within the range of benefits offered by similar companies in the sector;
- to align the interests of executives with those of the shareholders.

The committee will ensure that directors' remuneration will be the subject of regular review in accordance with this policy.

BASIC SALARY

The basic salary of individual executive directors is determined by the committee at the beginning of each year and if an individual's position or responsibilities change. In setting basic salary levels the committee will, as appropriate, use objective external research to compare the Group to a comparator group of companies in the sector. In the current climate of salary stability a formal exercise of this nature has not been undertaken in the year.

BONUS ARRANGEMENTS AND LONG TERM INCENTIVE PLAN ('LTIP')

Performance related bonuses are a key feature of remuneration policy throughout the Group and are intended to give executive directors the potential to receive annual benefits equal to the other elements of their remuneration package but only if significant value has been delivered to shareholders. Performance targets are set against matters in which the individual concerned has a direct influence. In the operating Divisions this means the performance of the business unit or part thereof over which they are judged to have a direct management influence. For executive directors of Morgan Sindall plc and senior head office personnel cash bonuses are based on the performance of the Group against targets set annually by the committee. The targets comprise a scale of the Group's pre tax profits on ordinary activities that take into account the previous year's result and growth expectations both internally set and those externally published.

The maximum cash element of total bonus which can be achieved by the executive directors (who all participate in the LTIP) equates to 75% of annual base salary.

For the year ended 31 December 2002 the group's pre-tax profits did not meet the minimum target set by the committee and accordingly no cash bonuses were paid.

The LTIP is designed to provide additional rewards for consistent out-performance and service over the longer period. It was introduced in 1997 for the executive directors of the Company and certain key Group senior management approved by the committee. Shares are conditionally awarded to participants in each financial year and can be allocated in whole or part after the Group's performance over the next three financial years has been measured and compared to a selected peer group.

The number of shares conditionally awarded in each year normally requires the participant to sacrifice 25% of the maximum bonus potentially payable for the year. The participant is then conditionally awarded the number of shares, which based on the market value at the date of award, is equal to the sum so sacrificed.

The maximum number of shares which may be conditionally awarded to any particular employee in any year is limited so that the aggregate market value of shares so awarded does not exceed 50% of the participant's annual basic salary.

REMUNERATION REPORT

Subsequently, to determine the number of conditionally awarded shares to be allocated a comparison is made of the increase in total shareholder value over three years with the corresponding increase of the fourteen companies listed in the Financial Times as construction companies which the committee consider as having a comparable business to the Group. The comparator group is currently comprised of the following companies: AMEC, Birse, Henry Boot, Carillion, Costain, Galliford Try, Gleeson, Havelok, Kier, Keller, Laing, McAlpine, Mowlem and Taylor Woodrow.

At the end of each three year period shares conditionally awarded will be allocated to participants if the Company is ranked first in the peer group and none will be allocated if the ranking is in the middle of the peer group or lower. Shares are allocated on a graduated scale between these two positions.

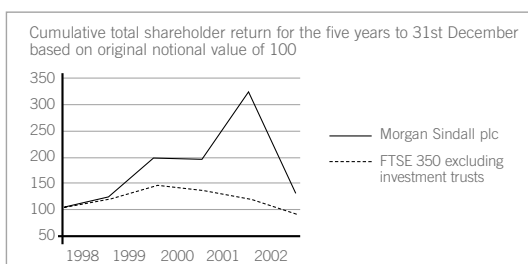
Fifth position in the peer group was achieved for the measurement period ended 31 December 2001 and an allocation of shares from those conditionally awarded for 1999 was made by the committee on 30 June 2002. The interests of each participating director are shown on page 30 with 48,342 shares from the numbers conditionally awarded in 1999 having accordingly lapsed.

The peer group comparison is confirmed each year by the Company's brokers. Preliminary figures for the year to 31 December 2002 indicate that the Group ranking will be below the middle of the peer group and that no allocation of shares will be made in the current year.

Once shares have been allocated, a participant is entitled to receive dividends in respect of those shares and to exercise voting rights. The participant is not entitled to transfer, sell or otherwise deal in the shares until a further two years have elapsed when the shares are vested in the participant's own name. Details of shares conditionally awarded, allocated and vested are shown in the audited section of this report.

PERFORMANCE GRAPH

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the companies comprised in the FTSE 350 index excluding investment trusts. This is considered by the committee to be the most suitable comparable broad index against which the Company's performance should be measured.



SHARE OPTION SCHEMES

No share options have been granted to Main Board directors.

Details of options granted to employees in the Group are shown in note 25 to the accounts on page 54. The total number of options which may be granted at any time is fixed by the committee within the approved limits of the scheme.

No further options can be granted under the Company's 1988 Scheme. The exercise of options granted under the 1995 Scheme will be subject to a performance target and will normally be exercisable only if the percentage growth in earnings per share of the Company over a five year period has at least been equal to the percentage growth in earnings per share of three-fourths of the constituent companies in the FTSE 100 index over the same period.

The relevant calculation relating to the performance target will be carried out and certified by the Company's brokers. Preliminary figures for the period to 31 December 2002 indicate that the performance target will be achieved.

SERVICE CONTRACTS

Executive directors' contracts are terminable on one year's notice. In circumstances of termination by notice (except in cases of removal for misconduct), compensation will be determined by the committee having regard to the particular circumstances of the case. The committee's guidelines will be to determine an equitable compensation package while avoiding rewarding poor performance and having regard to the departing director's obligations of mitigating loss.

In ordinary circumstances, base salary and employer pension contributions for the full period of notice of one year would be paid together with accrued bonus entitlements and LTIP shares already allocated in accordance with satisfied performance criteria. Other employee benefits would also be maintained for the notice period subject to the rules of the appropriate Group scheme.

The terms of appointment of the two non-executive directors, Jack Lovell and Geraldine Gallacher, who are seeking re-election at the Annual General Meeting, do not have a notice period for termination which is in excess of one year's duration.

The dates of the directors' contracts are:

J C Morgan	28 October 1994
J M Bishop	28 October 1994
P Whitmore	21 March 2000
B H Asher	4 February 1998
G Gallacher	28 April 1995
J J C Lovell	2 August 2001
J Walden	21 March 2000

REMUNERATION REPORT

NON-EXECUTIVE DIRECTORS

All non-executive directors have specific terms of engagement being an initial period of three years which thereafter may be extended by mutual consent for periods not exceeding one year. Their remuneration is determined by the Board within the limits set by the Articles of Association and based on surveys with external advice as appropriate as to fees paid to non-executive directors of similar companies. The basic fee paid to each non-executive director is set out in tabular form later in this report. No additional fees have been paid to any non-executive in respect of membership of any Board committees. Non-executive directors do not participate in any Company share option or other share linked incentive plan and are not eligible to join the Company's pension scheme.

DIRECTORS' INTERESTS

The shareholdings of all directors are shown in note 32 to the Accounts on page 59 and their interests in shares under the Long Term Incentive Plan are shown on page 30.

AUDITED INFORMATION AGGREGATE DIRECTORS' REMUNERATION

The total amounts for directors' remuneration were as follows:

	2002 £'000s	2001 £'000s
Emoluments	684	1,261
Amounts receivable under long-term incentive schemes	115	–
Money purchase pension contributions	55	61

DIRECTORS' EMOLUMENTS

Name of Director	Fees/Basic Salary £'000s	Benefits in kind £'000s	Cash bonuses £'000s	Total 2002 £'000s	Total 2001 £'000s
Executive					
J C Morgan	195	16	–	211	318
J M Bishop	175	13	–	188	282
P Whitmore	170	15	–	185	260
J J C Lovell	–	–	–	–	127
A M Stoddart	–	–	–	–	193
	540	44	–	584	1,180
Non executive					
B H Asher	25	–	–	25	20
G Gallacher	25	–	–	25	20
J J C Lovell	25	–	–	25	8
J Walden	25	–	–	25	13
Sir D P Hornby	–	–	–	–	20
	100	–	–	100	81
Totals	640	44	–	684	1,261
Fees to third parties				25	20

Fees to third parties comprise amounts paid to The Executive Coaching Consultancy for the services of Geraldine Gallacher. These same amounts are also shown against her name in the table above.

There were no elements of remuneration other than basic salary which were pensionable.

During the year, no compensatory awards were paid to any person who was formerly a director of the Company.

REMUNERATION REPORT

PENSIONS

The Company contributes 10% of base salary to defined contribution personal pension plans of the individual executive directors. The contributions paid by the Company to these plans were:

	2002 £'000s	2001 £'000s
J C Morgan	20	19
J M Bishop	18	17
P Whitmore	17	15
J J C Lovell	-	7
A M Stoddart	-	3

LONG TERM INCENTIVE PLAN ('LTIP')

A summary of the LTIP is included in the unaudited information earlier in this Report.

The executive directors' interests in shares under the LTIP are:

Shares conditionally awarded:

	As at 31 December 2002	Awarded/(lapsed) in the year	As at 31 December 2001
J C Morgan	71,547	18,243 (31,472)	84,776
J M Bishop	63,837	16,372 (29,224)	76,689
P Whitmore	52,192	15,904 -	36,288
J J C Lovell	35,785	-(23,818)	59,603

The market value per share of the shares conditionally awarded in the year was 341p as at the date of award.

Shares allocated and shares vested:

	As at 31 December 2002	Allocated/(vested) in the year	As at 31 December 2001
J C Morgan	38,695	13,470 (14,212)	39,437
J M Bishop	35,931	12,508 (12,274)	35,697
J J C Lovell	29,113	10,194 (12,274)	31,193

The shares vested as shown above are the first under the LTIP and accordingly a separate table of shares vested would add no further information. The market value of the Company's shares at the date of vesting was 297.5p.

The market value of shares allocated in the year was 285p at the date of allocation.

For details of the qualifying conditions under the LTIP see page 28.

APPROVAL

This report was approved by the Board on 6 February 2003.

By order of the Board

W R Johnston
Company Secretary

11 February 2003

CORPORATE GOVERNANCE

POLICY STATEMENT

The Group supports the Principles of Good Governance and the Code of Best Practice ("the Code"). Accordingly this report will deal with the requirements of the Code and also of paragraphs (a) and (b) of FSA Listing Rule 12.43A relating to Section 1 of the Code.

APPLICATION OF THE PRINCIPLES OF GOOD GOVERNANCE

The Company has applied the Principles of Good Governance set out in section 1 of the Code. Further explanation is set out below and in connection with directors' remuneration in the directors' remuneration report.

BOARD CONSTITUTION AND PROCEDURES

John Morgan has held the position of Executive Chairman since February 2001. Since that date the Company has acknowledged that it has not had a clear division of the responsibility for strategic and operational matters split between two people as recommended in a Code principle.

The Board comprises three executives and four non executives. All of the non-executive directors, with the exception of Jack Lovell, are considered to be independent of management and free from any business or other relationship which could materially affect their independent judgement. Jack Lovell is a former executive director and thus is not deemed independent under the criteria laid down by the National Association of Pension Funds. Bernard Asher is the senior independent director. The composition of the Board satisfies the Code that the Board should have a balance of executive and non-executive directors in terms of number and relevant experience to enable it to have effective leadership and control of the Group. It also ensures that the decision making process cannot be dominated by any individual or small group of individuals.

Code Principle A.6 requires that every director submits for re-election at least every three years. The Articles of Association of the Company reflect this Code provision.

The Board met on ten scheduled occasions during the year in addition ad hoc meetings were convened for particular purposes. Overall attendance at the scheduled meetings totalled 83% for the year with no individual director falling below an attendance of 80%. The key purposes of the scheduled meetings were to review all significant aspects of the Group's activities, supervise the executive management and to make decisions in relation to those matters which are specifically reserved to the Board. A formal agenda for each meeting is agreed with the Chairman and is circulated well in advance of the meeting to allow time for proper consideration with the Company Secretary being responsible for the timeliness and quality of the information.

The Company conforms with the Code provision regarding training facilities for directors on first appointment and subsequently as necessary. Adequate provision for training is made annually in an allocated training budget which also covers senior head office personnel with specific professional responsibilities relating to the proper management and conduct of a listed company. There are agreed procedures by which directors are able to take independent professional advice, at the expense of the Company, on matters relating to their duties. For certain purposes the Company Secretary is regarded as falling within that category of advisers and has been instructed by the Board to act accordingly. The Board has also resolved that any question of the removal from office of the Company Secretary is a matter to be considered by the Board as a whole.

BOARD COMMITTEES

The Board has established an audit and a remuneration committee.

AUDIT COMMITTEE

The audit committee comprises Geraldine Gallacher, Jon Walden and Bernard Asher, who has the Chair. Its duties include keeping under review the scope and results of the audit, its cost effectiveness and the objectivity of the auditors. The committee may request the attendance of any executive director and a representative of the external auditors. The committee meets at least twice yearly.

During the current year the audit committee will be considering the report entitled 'Audit Committees – Combined Code Guidance' published in January this year by the Financial Reporting Council.

The auditors, Deloitte & Touche, have confirmed to the committee that they have policies and safeguards in place to ensure that they are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. In particular, they have rotated audit partners and key audit principals to the extent required by the ICAEW's Additional Guidance on Independence for Auditors.

CORPORATE GOVERNANCE

REMUNERATION COMMITTEE

The remuneration committee comprises Geraldine Gallacher as Chairman, Bernard Asher and Jon Walden. Three meetings were held in the year to cover all elements of the directors' remuneration. The committee has three independent directors as recommended by the National Association of Pension Funds representing the views of institutional investors.

A report to shareholders on directors' remuneration is shown on pages 27 to 30.

NOMINATIONS COMMITTEE

The Board considers that as it has a total of only seven members it may consider itself to be 'small' as provided for in the Code. It can therefore properly deal with certain matters collectively which might otherwise have been delegated to a committee. Accordingly, a nominations committee has not been established. The Board's policy on appointments to it is that every Board member should have the opportunity of individual meetings with prospective candidates.

RELATIONS WITH SHAREHOLDERS

The Company actively seeks to enter into dialogue with institutional shareholders whenever possible. It also endorses the Code principles generally on the conduct of Annual General Meetings including that it be used as an opportunity for effective communication with private shareholders whose participation in the proceedings is encouraged.

The Company has taken advantage of The Companies Act 1985 (Electronic Communications) Order 2000 allowing communication with shareholders, where individual shareholders so choose, in electronic format.

The Company's Registrars have now completed trials of system software to facilitate electronic proxy voting. Although too late for this year's Annual General meeting, this facility will be available for all future meetings. Details of proxy votes submitted for this year's Annual General Meeting will be available on the Company's web-site.

The Company now makes announcements available on its web-site as at the dates of release to the London Stock Exchange Regulatory News Service. Further development of the web-site is planned to enhance the timely delivery of information to institutional and private shareholders, sector analysts and the financial and trade media.

INTERNAL CONTROL STATEMENT

All procedures necessary to implement 'Internal Control: Guidance for Directors on the Combined Code' were put in place in 1999. These procedures have been in place for the year under review and up to the date of approval of the Annual Report and Accounts. These procedures have been regularly reviewed and have been subject to further development and refinement and this report therefore follows an approach of full compliance throughout the year with Code Principle D.2. The Board has acknowledged that it has overall responsibility for the Group's system of internal control and for ongoing review of its effectiveness. The internal control system is designed to manage rather than eliminate the risk of failure to achieve certain business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

RISK MANAGEMENT

The Board has reserved specific responsibility to itself for the formulation of the risk management strategy of the Group. A formal process is in place through which the Company identifies the significant risks attached to its strategic objectives, confirms the control strategy for each risk and identifies the appropriate early warning mechanisms. A risk management policy document has been adopted by the Board setting out the Board's role and responsibilities and its overall approach to management and acceptance of risk. Internal control and risk management systems are embedded in the operations of the business.

FINANCIAL INFORMATION

The Board recognises that an essential part of the responsibility for running a business is the effective safeguarding of assets, the proper recognition of liabilities and the accurate reporting of profits. The Group has a comprehensive system flowing through each Division for monthly reporting to the Board.

CORPORATE GOVERNANCE

INVESTMENT AND CAPITAL EXPENDITURE APPRAISAL

There are clear policies, detailed procedures and defined levels of authority in relation to investment, capital expenditure, significant cost commitments and asset disposals.

COMPUTER SYSTEMS

The Group has established controls and procedures over the security of data held on computer systems. These controls and procedures are reviewed within the rolling examination programme described below under 'internal audit'.

CONTROLS OVER CENTRAL FUNCTIONS

A number of the Group's key functions, including treasury, risk management and insurance are dealt with centrally. Each of these functions have detailed procedure manuals.

INTERNAL AUDIT

The Board continues to review the need or otherwise for an internal audit function and remains of the opinion that such a function is not essential. Instead, led by specialist central Group personnel, there is a rolling programme of peer group examination in which selected staff participate in the examination and review of the practices and procedures of Divisions other than their own. It is felt that this programme not only provides many of the benefits to be derived from an internal audit function but also assists in the professional development of the individual staff concerned whilst at the same time identifying and providing a mechanism for the cross-fertilisation of ideas and best practice throughout the Group.

ANNUAL REVIEW

The Board has conducted a review of the effectiveness of the system of internal financial control for the year ended 31 December 2002 and for the period to the date of this report. The review was performed on the basis of the criteria set out in the Guidance for Directors 'Internal Control and Financial Reporting' issued in December 1994. The process included a formal review conducted by the Board of a consolidated report of the Divisional Risk Framework reviews together with the Group Risk Framework document which is re-appraised and updated annually. In addition, the Board has also reviewed the results of the internal control peer reviews referred to above.

COMPLIANCE STATEMENT

The Company has throughout the year been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance appended to the Listing Rules issued by the Financial Services Authority.

GOING CONCERN

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a going concern basis in preparing the financial statements.

DIRECTORS' RESPONSIBILITIES

DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

1. Select suitable accounting policies and then apply them consistently.
2. Make judgements and estimates that are reasonable and prudent.
3. State whether applicable accounting standards have been followed.

The directors are responsible for ensuring that the proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps, for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORGAN SINDALL PLC

We have audited the financial statements of Morgan Sindall plc for the year ended 31 December 2002 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, statement of total recognised gains and losses, note of historical cost profits and losses, the related notes 1 to 33 together with the statement of movements in reserves and shareholders' funds. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Company's Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in our auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors
London

11 February 2003

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002		2001	
		£'000s	£'000s	£'000s	£'000s
Turnover					
Continuing operations			937,313		910,766
Acquisitions			103,333		–
Less share of joint ventures turnover			(2,259)		(1,598)
Group turnover	1		1,038,387		909,168
Cost of sales	1		(942,782)		(820,004)
Gross profit			95,605		89,164
Administrative expenses	1		(80,672)		(70,709)
Other operating income	2		758		1,133
Operating profit					
Continuing operations			13,359	19,588	
Acquisitions			2,332	–	
Total operating profit	1,3		15,691		19,588
Share of profit of joint ventures	13		603		17
Net interest (payable)/receivable	4		(764)		1,165
Profit on ordinary activities before taxation			15,530		20,770
Tax charge on profit on ordinary activities	5		(5,138)		(6,536)
Profit on ordinary activities after taxation			10,392		14,234
Dividends on equity and non-equity shares	6		(6,254)		(5,824)
Retained profit for the year			4,138		8,410
Earnings per ordinary share	7		25.32p		36.03p
Diluted earnings per ordinary share	7		25.00p		34.87p

GROUP BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	2002		2001	
		£'000s	£'000s	£'000s	£'000s
Fixed assets					
Intangible assets	11		54,395		40,009
Tangible assets	12		21,308		19,887
Share of joint ventures gross assets		31,771		22,151	
Share of joint ventures gross liabilities		(27,287)		(20,551)	
Investment in joint ventures	13		4,484		1,600
Other investments	13		1,337		1,366
			81,524		62,862
Current assets					
Stocks	14		49,644		36,028
Debtors	15		176,491		155,261
Cash at bank and in hand	16		6,849		34,639
			232,984		225,928
Creditors: amounts falling due within one year	18		(243,657)		(224,418)
Net current (liabilities)/assets			(10,673)		1,510
Total assets less current liabilities			70,851		64,372
Creditors: amounts falling due after more than one year	19		(571)		(629)
Net assets			70,280		63,743
Capital and reserves					
Called up share capital	25		3,646		4,993
Share premium account			24,375		22,896
Revaluation reserve	26		6,941		4,627
Profit and loss account			35,318		31,227
Total shareholders' funds			70,280		63,743
Shareholders' funds are attributable to:					
Equity shareholders' funds			68,696		60,779
Non-equity shareholders' funds			1,584		2,964
			70,280		63,743

Approved by the Board on 11 February 2003

J C Morgan
J M Bishop

COMPANY BALANCE SHEET

AT 31 DECEMBER 2002

	Notes	2002 £'000s	2001 £'000s
Fixed assets			
Tangible assets	12	7,468	7,442
Investments	13	110,405	92,540
		117,873	99,982
Current assets			
Stocks	14	1,240	3,767
Debtors	15	16,592	12,981
Cash at bank and in hand	16	–	375
		17,832	17,123
Creditors: amounts falling due within one year	18	(45,286)	(40,757)
Net current liabilities		(27,454)	(23,634)
Net assets		90,419	76,348
Capital and reserves			
Called up share capital	25	3,646	4,993
Share premium account		24,375	22,896
Revaluation reserve	26	2,948	2,948
Special reserve		13,644	13,644
Profit and loss account		45,806	31,867
Total shareholders' funds		90,419	76,348
Shareholders' funds are attributable to:			
Equity shareholders' funds		88,835	73,384
Non-equity shareholders' funds		1,584	2,964
		90,419	76,348

Approved by the Board on 11 February 2003

J C Morgan
J M Bishop

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £'000s	2001 £'000s
Net cash inflow from operating activities	29	630	36,159
Returns on investments and servicing of finance			
Interest received		821	1,434
Interest paid		(1,557)	(727)
Dividends paid to preference shareholders		(128)	(190)
Interest paid on finance lease charges		(56)	(62)
		(920)	455
Taxation			
Corporation tax paid		(6,349)	(6,079)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(5,282)	(3,330)
Receipts from sale of tangible fixed assets		416	551
Payments to acquire fixed asset investments		(103)	(311)
		(4,969)	(3,090)
Acquisitions and disposals			
Purchase of subsidiary undertakings	27	(10,606)	(25,658)
Net cash acquired with subsidiary undertakings	27	506	4,720
		(10,100)	(20,938)
Equity dividends paid		(5,755)	(4,368)
Net cash (outflow)/inflow before financing		(27,463)	2,139
Financing			
Issue of shares, net of expenses		132	9,139
Capital element of finance leases		(459)	(113)
Net cash (outflow)/inflow from financing activities		(327)	9,026
(Decrease)/increase in cash	30, 31	(27,790)	11,165

COMBINED STATEMENT OF MOVEMENTS IN RESERVES AND SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2002

Group	Share premium account £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	2002 Shareholders' funds £'000s	2001 Shareholders' funds £'000s
Balance at 1 January	22,896	4,627	31,227	58,750	4,993	63,743	45,700
Retained profit for the year	–	–	4,138	4,138	–	4,138	8,410
Converted preference shares	1,352	–	–	1,352	(1,352)	–	–
Options exercised	127	–	–	127	5	132	774
Unrealised loss on deemed disposal of joint venture interest	–	–	(47)	(47)	–	(47)	–
Share of joint venture revaluation surplus	–	2,314	–	2,314	–	2,314	494
New shares issued	–	–	–	–	–	–	8,365
Balance at 31 December	24,375	6,941	35,318	66,634	3,646	70,280	63,743

Included within the profit and loss account balance at 31 December 2002 is an amount for unrealised goodwill totalling £7,034,000 (2001: £7,034,000).

Company	Share premium account £'000s	Special reserve £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total reserves £'000s	Share capital £'000s	2002 Shareholders' funds £'000s	2001 Shareholders' funds £'000s
Balance at 1 January	22,896	13,644	2,948	31,867	71,355	4,993	76,348	66,039
Retained profit for the year	–	–	–	13,939	13,939	–	13,939	1,170
Converted preference shares	1,352	–	–	–	1,352	(1,352)	–	–
Options exercised	127	–	–	–	127	5	132	774
New shares issued	–	–	–	–	–	–	–	8,365
Balance at 31 December	24,375	13,644	2,948	45,806	86,773	3,646	90,419	76,348

OTHER PRIMARY STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

Statement of Total Recognised Gains and Losses

	2002 £'000s	2001 £'000s
Profit for the financial year before dividends	10,392	14,234
Share of joint venture revaluation surplus	2,314	494
Unrealised loss on deemed disposal of joint venture interest	(47)	–
Total recognised gain since last annual report	12,659	14,728

Note of Historical Cost Profits and Losses

	2002 £'000s	2001 £'000s
Profit on ordinary activities before taxation	15,530	20,770
Realisation of property valuation gains of prior years	–	126
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	65	70
Historical cost profit on ordinary activities before taxation	15,595	20,966
Historical cost profit on ordinary activities after taxation and dividends	4,203	8,606

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed asset properties, and in accordance with applicable United Kingdom accounting standards. Compliance with SSAP19 Accounting for Investment Properties requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation is given below. Where the Group is party to a joint arrangement which is not an entity, the Group accounts for its part of the income and expenditure, assets, liabilities and cash flows of the joint arrangement.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings.

Acquisitions and disposals

The results of subsidiaries are included in the consolidated profit and loss account from the date of acquisition. Goodwill is the difference between the fair value of consideration given on acquisition of a business and the aggregate fair value of its separable net assets. Goodwill is capitalised and written off in equal instalments over its useful economic life of 20 years.

Goodwill that arose on acquisitions prior to 31 December 1997 is eliminated against the profit and loss account reserve. Amounts will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates.

Turnover

Turnover is defined as the value of goods and services rendered excluding VAT.

Fixed asset investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment in value. In the consolidated accounts the Group's share of the results of the joint ventures are shown each year in the profit and loss account and the Group's share of retained profit and reserves is added to the cost of the investment in the balance sheet.

Fixed assets and depreciation

By adopting Financial Reporting Standard 15, non-investment properties are now held at cost. Under the transitional rules of the Standard, the Group has frozen the book amounts of certain revalued properties and the valuation has not been updated.

No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

Freehold property	–	2% per annum
Leasehold property	–	period of the lease
Plant, machinery, motor vehicles and equipment	–	between 10% and 33% per annum

No depreciation is provided in respect of freehold investment properties which are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. The Companies Act 1985 requires all properties to be depreciated, however this requirement conflicts with the generally held accounting principle set out in SSAP19. The directors consider that as these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view and that it is necessary to adopt SSAP19 in order to give a true and fair view.

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation.

PRINCIPAL ACCOUNTING POLICIES

Stocks

Stocks are valued at the lower of cost and net realisable value. Interest incurred on borrowings to finance specific developments is capitalised.

Contract accounting

Contracts are accounted for as long term contracts. Anticipated net sales value of contracts include a proportion of attributable profit where a profitable outcome can be foreseen, provision being made for foreseeable losses. Turnover less progress payments is recorded in 'amounts recoverable on contracts' within debtors. Where progress payments exceed turnover and other contract balances the excess is shown as 'payments on account' in creditors.

Attributable 'pre-contract' costs, that are incurred prior to the time that there is virtual certainty of future recovery, are expensed.

Deferred taxation

The Group has adopted Financial Reporting Standard 19, Deferred Tax. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leased assets

Assets acquired under finance leases are included in tangible fixed assets at equivalent cost. Depreciation is provided at rates designed to write-off this amount using the straight line method over the shorter of the estimated useful lives of the assets or the period of the leases. The capital element of the future rentals is treated as a liability in the balance sheet and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding. Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the leases.

Pensions

The Group contributes to The Morgan Sindall Retirement Benefits Plan and to other employees' personal pension arrangements which are of a defined contribution type. Subject to the circumstances referred to in note 28 on page 56, the annual costs are charged to the profit and loss account.

NOTES TO THE ACCOUNTS

1 Analysis of turnover, cost of sales, administrative expenses, operating profit and net assets

	2002			2001		
	Turnover £'000s	Profit/ (loss) £'000s	Net assets £'000s	Turnover £'000s	Profit/ (loss) £'000s	Net assets £'000s
Fit out	192,934	10,483	(9,109)	232,513	10,717	(12,077)
Regional construction	337,027	(4,952)	2,241	402,609	4,034	1,118
Affordable housing	223,558	5,965	12,032	155,971	4,292	19,833
Infrastructure services	280,565	6,548	27,769	95,384	2,662	15,202
Group activities and investments	4,303	(2,353)	38,461	22,691	(2,117)	5,882
	1,038,387	15,691	71,394	909,168	19,588	29,958
Net (debt)/funds (note 30)			(1,114)			33,785
Net assets			70,280			63,743

Segmental net assets are stated after deducting interest bearing net debt/funds. All activities are carried out in the United Kingdom and Channel Islands.

Included within cost of sales is an amount of £97,370,000 derived from acquisitions and £845,412,000 from continuing operations. Administrative expenses includes an amount of £3,631,000 relating to acquisitions and £77,041,000 to continuing operations.

2 Other operating income

	2002 £'000s	2001 £'000s
Rent receivable from continuing operations	758	1,133

3 Operating profit

Operating profit is stated after charging/(crediting);

	2002 £'000s	2001 £'000s
Depreciation – owned assets	3,357	2,978
– leased assets	712	141
Profit on sale of fixed assets	(166)	(80)
Amortisation of goodwill	3,116	1,478
Hire of plant and machinery	23,842	13,002
Operating lease costs – land and buildings	2,502	2,481
– other	4,231	2,998
Auditors' remuneration – audit	312	270
– other audit related services	1	–
– non audit related services	–	–

NOTES TO THE ACCOUNTS

4 Net interest (payable)/receivable

	2002 £'000s	2001 £'000s
Interest payable on bank overdrafts	(1,553)	(727)
Interest payable on finance leases	(56)	(62)
Other interest payable	(4)	–
Interest capitalised	28	520
	(1,585)	(269)
Bank interest receivable	821	1,434
	(764)	1,165

5 Tax charge on profit on ordinary activities

	2002 £'000s	2001 £'000s
Current taxation		
UK corporation tax charge for the year	5,525	6,286
Adjustment in respect of prior years	199	250
Total current tax	5,724	6,536
Deferred taxation (note 21)		
Origination and reversal of timing differences	(572)	–
Share of taxation of associated undertaking	(14)	–
Tax charge on profit on ordinary activities	5,138	6,536

Adoption of Financial Reporting Standard 19, Deferred Tax, has required a change in the method of accounting for deferred tax. The impact of this change is a deferred tax credit in the year of £572,000. This represents an asset brought forward of £270,000 and a movement during the year of a further credit of £302,000. The prior year result has not been restated as the impact is not considered material.

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 30%. The actual tax charge for the current and the previous year exceeds the standard rate for the reasons set out in the following reconciliation.

	2002 £'000s	2001 £'000s
Profit on ordinary activities before tax	15,530	20,770
Tax on profit on ordinary activities at standard rate	4,659	6,231
Factors affecting charge for the year		
Capital allowances for the year in excess of depreciation	(199)	(32)
Expenses not deductible for tax purposes	770	585
Utilisation of tax losses	(715)	(946)
Adjustments to tax charge in respect of previous years	199	250
Amortisation not deductible for tax purposes	935	443
Other short term timing differences	75	5
Total actual amounts of current tax	5,724	6,536

No provision has been made for deferred tax on revaluing property to its market value. The tax on the gains arising from the revaluation would only become payable if property were sold without rollover relief being available. The tax which would be payable in such circumstances is estimated to be £2,082,000 (2001: £1,388,000). These assets are expected to be used in the continuing operations of the Group and its joint ventures and therefore no tax is expected to be paid in the foreseeable future.

The total amount of deferred tax assets that are not recognised in the financial statements in relation to losses carried forward amounted to £1,332,000 (2001: £1,500,000) due to the uncertainty of the availability of future profits against which the losses can be recovered.

NOTES TO THE ACCOUNTS

6 Dividends on equity and non-equity shares

	2002 £'000s	2001 £'000s
Non-equity dividends on preference shares		
Paid	82	144
Accrued	46	46
	128	190
Equity dividends on ordinary shares		
Interim paid	1,756	1,542
Final proposed	4,433	4,151
	6,189	5,693
Total dividends	6,317	5,883
Dividends on shares held in trust relating to the Long Term Incentive Plan	(63)	(59)
	6,254	5,824

7 Earnings per ordinary share

The calculation of the earnings per share is based on the weighted average number of 40,535,000 (2001: 38,974,000) ordinary shares in issue during the year and on the profits for the year attributable to ordinary shareholders of £10,264,000 (2001: £14,043,000).

In calculating the diluted earnings per share, earnings are adjusted for the preference dividend of £128,000 (2001: £190,000) making adjusted earnings of £10,392,000 (2001: £14,233,000). The weighted average number of ordinary shares are adjusted for the dilutive effect of the convertible preference shares by 634,000 (2001: 1,185,000), share options by 398,000 (2001: 561,000) and contingent Long Term Incentive Plan shares by nil (2001: 94,000) giving an adjusted number of ordinary shares of 41,567,000 (2001: 40,814,000).

8 Profit of parent company

The Company has taken advantage of s230 of the Companies Act 1985 and consequently the profit and loss account of the parent company is not presented as part of these accounts. The profit of the parent company for the financial year amounted to £20,193,000 (2001: £6,994,000).

NOTES TO THE ACCOUNTS

9 Employees

The average number of people employed by the Group during the year was:

	2002 No.	2001 No.
Fit out	452	471
Regional construction	1,402	1,475
Affordable housing	989	727
Infrastructure services	1,975	682
Other	26	22
	4,844	3,377

10 Staff costs

	2002 £'000s	2001 £'000s
Wages and salaries	129,270	91,882
Social security costs	13,978	9,637
Pension costs	3,602	2,505
	146,850	104,024

11 Intangible fixed assets

Group	Goodwill £'000s
Cost	
At 1 January 2002	42,707
Additions (note 27)	17,502
At 31 December 2002	60,209
Amortisation	
At 1 January 2002	2,698
Provided in the year	3,116
At 31 December 2002	5,814
Net book value at 31 December 2002	54,395
Net book value at 31 December 2001	40,009

NOTES TO THE ACCOUNTS

12 Tangible fixed assets

(a) Group	Owned plant, machinery & equipment £'000s	Leased plant, machinery & equipment £'000s	Motor vehicles £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation						
At 1 January 2002	24,064	1,879	441	6,080	3,927	36,391
Acquisition of subsidiary undertaking	4,433	–	732	–	–	5,165
Additions	4,587	160	31	–	504	5,282
Disposals	(3,672)	(11)	(799)	(21)	–	(4,503)
At 31 December 2002	29,412	2,028	405	6,059	4,431	42,335
Depreciation						
At 1 January 2002	14,070	845	388	279	922	16,504
Acquisition of subsidiary undertaking	3,992	–	715	–	–	4,707
Provided in the year	3,330	150	34	43	512	4,069
Disposals	(3,455)	(11)	(776)	(11)	–	(4,253)
At 31 December 2002	17,937	984	361	311	1,434	21,027
Net book value at 31 December 2002	11,475	1,044	44	5,748	2,997	21,308
Net book value at 31 December 2001	9,994	1,034	53	5,801	3,005	19,887

(b) Company	Owned plant, machinery & equipment £'000s	Freehold property £'000s	Leasehold property £'000s	Total £'000s
Cost or valuation				
At 1 January 2002	384	6,059	1,600	8,043
Additions	279	–	–	279
Disposals	(5)	–	–	(5)
At 31 December 2002	658	6,059	1,600	8,317
Depreciation				
At 1 January 2002	173	269	159	601
Provided in the year	131	42	78	251
Disposals	(3)	–	–	(3)
At 31 December 2002	301	311	237	849
Net book value at 31 December 2002	357	5,748	1,363	7,468
Net book value at 31 December 2001	211	5,790	1,441	7,442

NOTES TO THE ACCOUNTS

12 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Investment properties				
Freehold	3,655	3,655	3,655	3,655
Short leasehold	1,363	1,441	1,363	1,441
	5,018	5,096	5,018	5,096
Other properties				
Freehold	2,093	2,146	2,093	2,135
Short leasehold	1,634	1,564	–	–
	3,727	3,710	2,093	2,135
Total net book value	8,745	8,806	7,111	7,231

Land and buildings at cost or valuation are stated:

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Investment properties at valuation	5,250	5,250	5,250	5,250
Other properties at valuation	1,351	1,351	1,351	1,351
Other properties at cost	3,889	3,406	1,058	1,058
	10,490	10,007	7,659	7,659

An independent valuation of the Group's investment properties was undertaken by Healey & Baker Real Estate Consultants as at 31 December 1999 on the basis of Existing Use Value in accordance with the RICS Appraisal and Valuation Manual. The directors have considered these valuations as at the balance sheet date and have concluded that no change is required to their carrying value.

Comparable amounts determined according to the historical cost convention:

	Cost	Accumulated depreciation	Net book value	Net book value
	2002 £'000s	2002 £'000s	2002 £'000s	2001 £'000s
Land and buildings	8,039	2,177	5,862	5,858

NOTES TO THE ACCOUNTS

13 Investments

(a) Group	Joint ventures £'000s	Own shares at cost £'000s	Trade investment £'000s
At 1 January 2002	1,600	1,366	–
Additions	–	–	103
Share of profit for the year	603	–	–
Share of taxation	14	–	–
Share of revaluation surplus	2,314	–	–
Disposal/shares vested	(47)	(132)	–
At 31 December 2002	4,484	1,234	103

Investment in joint ventures

Morgan-Vinci Limited

Morgan-Vinci Limited is responsible for the construction of the Newport Southern Distributor Road which is being undertaken in part by Morgan Est plc on its behalf. Morgan-Vinci Limited is funded primarily by bank finance and has made nil turnover and profit for the period ended 31 December 2002.

Primary Medical Property Limited

Primary Medical Property Limited has a portfolio of primary care health centres. During the year an employee of Primary Medical Property Limited, exercised a share option thereby reducing the Group's interest in the ordinary shares from 50% to 47.5%. The Group's involvement in the management of Primary Medical Property Limited is restricted to the appointment of two directors under the terms of a shareholder agreement under which certain matters require the approval of all directors and as such the Group has maintained joint control. At 31 December 2002 the fixed assets of Primary Medical Property Limited were £48.7m, current assets £2.5m, current liabilities £2.0m and long term liabilities £39.9m.

Investment in own shares

The own shares at cost represent 524,081 Morgan Sindall plc ordinary shares held in The Morgan Sindall Employee Benefit Trust in connection with the Long Term Incentive Plan ('LTIP') as detailed in the Remuneration Report on pages 27 to 30. The trustee, the Legis Trust, purchases the Company's ordinary shares in the open market with financing provided by the Company on the basis of regular reviews of the share liabilities of the LTIP. The unallocated shares number 420,342 and dividends on these shares have been waived. Dividends on allocated shares are paid to the participants as detailed on page 28. The cost of the shares expected to be awarded are charged over the three year period to which the award relates. Based on the Company's share price on 31 December 2002 of £1.75 the market value of the shares was £917,000.

(b) Company

	Own shares at cost £'000s	Subsidiary undertakings Shares £'000s	Loans £'000s	Joint venture shares £'000s	Total £'000s
Cost at 1 January 2002	1,366	92,064	4,395	4	97,829
Additions	–	17,997	10	–	18,007
Shares vested	(132)	–	–	–	(132)
Cost at 31 December 2002	1,234	110,061	4,405	4	115,704
Provisions at 1 January 2002	–	890	4,395	4	5,289
Provisions created in year	–	–	10	–	10
Provisions at 31 December 2002	–	890	4,405	4	5,299
Net book value at 31 December 2002	1,234	109,171	–	–	110,405
Net book value at 31 December 2001	1,366	91,174	–	–	92,540

NOTES TO THE ACCOUNTS

14 Stocks

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Development works and building land	46,574	34,879	1,240	3,767
Trading properties	587	871	-	-
Materials and equipment	2,483	278	-	-
	49,644	36,028	1,240	3,767

Included within development works and building land is £3,000 (2001: £241,000) in respect of interest capitalised.

15 Debtors

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Trade debtors	54,749	64,043	159	252
Amounts recoverable on contracts	112,870	85,416	-	-
Amounts owed by subsidiary undertakings	-	-	15,168	10,329
Amounts owed by joint ventures	483	12	3	-
Corporation tax recoverable	-	-	462	-
Deferred tax asset (note 21)	572	-	-	-
Other debtors	4,480	3,422	330	1,521
Prepayments and accrued income	3,337	2,368	470	879
	176,491	155,261	16,592	12,981

16 Cash at bank and in hand

The Group's financial instruments comprise cash that arises directly from its operations. In particular the Group holds cash in the form of sterling deposits with counterparties, which are at a fixed interest rate based on LIBOR and for periods not exceeding three months. The Directors consider the fair value of the Group's financial instruments is not materially different to the book value.

The objective of placing these deposits with financial institutions approved by the Board is to maximise interest received. The Group's treasury policy sets out lending limits and minimum liquidity requirements to be met. By lending surplus funds to counterparties the Group's risk profile is not significantly changed from maintaining funds with the Group's clearing bank.

During the period under review the Group did not enter into derivative transactions and has not undertaken trading in any financial instruments.

17 Loan notes

The loan notes totalling £7,161,000 (see note 18) were issued as part consideration for the acquisition of Pipeline Constructors Group Plc. Their interest rate is determined by reference to a six month sterling money market deposit and as such varies every six months. They are redeemable by the loan note holders at six monthly intervals commencing on 2 January 2003.

NOTES TO THE ACCOUNTS

18 Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Bank overdraft	-	-	6,048	7,737
Loan notes (note 17)	7,161	-	7,161	-
Obligations under finance leases (note 20)	231	225	-	-
Payments on account	13,798	11,221	-	-
Trade creditors	67,192	73,429	549	413
Amounts owed to subsidiary undertakings	-	-	25,386	22,451
Other creditors	4,632	3,897	468	678
Corporation tax	2,410	4,034	-	454
Other tax and social security	9,259	7,711	113	109
Accruals and deferred income	134,495	119,793	1,082	4,807
Dividend	4,479	4,108	4,479	4,108
	243,657	224,418	45,286	40,757

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Obligations under finance leases (note 20)	571	629	-	-

20 Borrowings

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Borrowings are repayable as follows:				
Finance leases:				
Within one year	231	225	-	-
Within two to five years	471	629	-	-
After five years	100	-	-	-
	571	629	-	-
Total obligations under finance leases	802	854	-	-
Loan notes:				
Within one year	7,161	-	7,161	-
Total obligations	7,963	854	7,161	-

The finance leases are secured on the assets to which they relate. The loan notes are secured by a corresponding cash deposit.

NOTES TO THE ACCOUNTS

21 Deferred taxation

	Group £'000s	Company £'000s
Balance at 1 January 2002	-	-
Profit and loss account credit (note 5)	572	-
Deferred tax asset at 31 December 2002	572	-

Provision for deferred taxation consists of the following amounts:

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Capital allowances in excess of depreciation	328	-	-	-
Taxation loss and other timing differences	244	-	-	-
	572	-	-	-

22 Operating lease commitments

At 31 December 2002 the Group was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	2002			2001		
	Land and buildings £'000s	Other £'000s	Total £'000s	Land and buildings £'000s	Other £'000s	Total £'000s
Leases which expire:						
Within one year	304	976	1,280	171	746	917
Within two to five years	711	2,928	3,639	491	2,259	2,750
After five years	2,273	4	2,277	1,763	2	1,765
	3,288	3,908	7,196	2,425	3,007	5,432

23 Financial commitments

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Capital expenditure Authorised and contracted	-	6	-	-

24 Contingent liabilities

Group bank accounts and performance bond facilities are supported by cross-guarantees given by the Company and participating companies in the Group.

NOTES TO THE ACCOUNTS

25 Called up share capital

	2002		2001	
	No. '000s	£'000s	No. '000s	£'000s
Authorised				
Ordinary shares of 5p each	50,000	2,500	50,000	2,500
5.625% Convertible cumulative redeemable preference shares of £1 each	5,000	5,000	5,000	5,000
	55,000	7,500	55,000	7,500
Issued and fully paid				
Ordinary shares of 5p each	41,242	2,062	40,592	2,029
5.625% Convertible cumulative redeemable preference shares of £1 each	1,584	1,584	2,964	2,964
	42,826	3,646	43,556	4,993

Ordinary shares

The ordinary shares of 5p each of the Company issued during the year are shown below. Details of the share option schemes referred to are given later in this note.

- 10,900 ordinary shares in respect of options exercised under the Company's 1988 Scheme (referred to below) for total consideration of £13,876.00.
- 86,750 ordinary shares in respect of options exercised under the Company's 1995 Scheme (referred to below) for total consideration of £118,662.50.
- 551,802 ordinary shares in respect of conversion rights attached to 1,379,507 convertible preference shares exercised as at 30 June 2002.

Preference shares

The convertible preference shares are convertible at the option of the holder on 30 June in each of the years 1991 to 2003 inclusive on the basis of 40 ordinary shares for every 100 convertible preference shares. After conversion of 75% of the convertible preference shares the Company has the right to require the conversion of the outstanding balance. The convertible preference shares are redeemable at par at the Company's option after the last date of conversion in 2003 and are finally redeemable on 30 June 2005. There is no premium payable on a return of capital on a winding up and the convertible preference shares do not entitle the holders to any participation in the profits or assets of the Company beyond their preference dividend entitlement.

Options

The company has two share option schemes. The first scheme ('the 1988 Scheme') was introduced on 21 January 1988 and the second scheme ('the 1995 Scheme') received shareholders' approval on 24 May 1995. Options granted under the 1988 Scheme are exercisable between three and ten years from the date of grant and under the 1995 Scheme are exercisable between five and seven years from the date of grant. The period for the granting of options under the 1988 Scheme expired in January 1998. As at 31 December 2002 there remain 53,325 options outstanding under that Scheme exercisable at prices between £0.73 and £1.71. At the same date there were 2,102,450 options outstanding under the 1995 Scheme exercisable at prices between £1.47 and £4.95.

26 Revaluation reserve

	Group		Company	
	2002 £'000s	2001 £'000s	2002 £'000s	2001 £'000s
Investment property revaluation reserve	2,854	2,854	2,854	2,854
Other property revaluation reserve	94	94	94	94
Share of joint venture revaluation surplus	3,993	1,679	-	-
	6,941	4,627	2,948	2,948

NOTES TO THE ACCOUNTS

27 Acquisitions

Morgan Utilities Group Plc (formerly Pipeline Constructors Group Plc)

On 2 January 2002 the Company acquired Morgan Utilities Group Plc. The consideration was £10.4m of cash and £7.2m of loan notes.

The financial results of the business for the year to 30 September 2001 and the period to the date of acquisition were as follows:

	Turnover £'000s	Operating profit £'000s	Profit before taxation £'000s	Profit after taxation £'000s
Financial year to 30 September 2001	75,192	340	333	142
1 October 2001 to date of acquisition	20,104	(1,718)	(1,701)	(1,701)

The following table analyses the book value of the major categories of assets and liabilities acquired.

	Book value at date of acquisition £'000s	Provisional fair value adjustments £'000s	Reclassification £'000s	Notes	Provisional fair value of net assets £'000s
Tangible fixed assets	1,350	(60)	(832)	a,b	458
Stocks	1,511	(47)	832	a,b	2,296
Trade debtors	4,766	(15)	–	a	4,751
Amounts recoverable on contracts	10,838	(502)	–	c	10,336
Other debtors	327	500	–	a	827
Cash at bank	506	–	–		506
Trade creditors	(4,387)	–	–		(4,387)
Accruals	(7,181)	(909)	–	c	(8,090)
Other creditors and accruals	(4,360)	–	–		(4,360)
Finance leases	(407)	–	–		(407)
Net assets	2,963	(1,033)	–		1,930
Consideration					17,573
Acquisition costs					194
Total cost					17,767
Goodwill					15,837

The acquisition has been accounted for by the acquisition method of accounting. The fair values are provisional to allow the directors the opportunity to consider and finalise them in the coming year. The provisional fair value adjustments are explained as follows:

- a: Adjustment to carrying value of assets
- b: Reclassification of fixed asset land and building held for resale
- c: Provision for known liabilities

Cash flow

During the year, acquisitions absorbed £606,000 of the Group's net operating cash flows, paid £1,665,000 in respect of net returns on investment and servicing of finance, paid £76,000 in respect of corporation tax, paid £234,000 on net investing activities and £400,000 on net financing activities.

Morgan Est

On 10 May 2001 the Company acquired Morgan Est (Scotland) Limited (formerly Miller Civil Engineering Services Limited). The final cash consideration was £20.0m with acquisition costs of £0.2m. The final net liabilities were £1.52m following additional fair value adjustments of £1.67m made during the year. The business and assets were transferred to Morgan Est plc on 30 December 2001.

NOTES TO THE ACCOUNTS

28 Pensions

Defined contribution and hybrid schemes

The Morgan Sindall Retirement Benefits Plan (MSRBP) scheme was established on 31 May 1995 and operates on defined contribution principles where contributions are invested to accumulate capital sums to provide members with retirement and death benefits. MSRBP includes some defined benefit liabilities and transfers of funds representing the accrued benefit rights of former active and deferred members of pension plans of companies which are part of the Group as it now stands. These include final salary related benefits for the members of the former Sindall Group Pension Fund in respect of benefits accrued before 31 May 1995. No further defined benefit membership rights can accrue after that date and consequently there is no service cost for such benefits in the year.

The last triennial valuation of the MSRBP was undertaken on 5 April 2001 and was prepared using the assumptions of rate of investment return of 6.0% per annum, rate of earnings escalation of 5.0% per annum and rate of inflation of 3.0% per annum. The ongoing liabilities of the MSRBP were assessed using the attained age method whereas the assets were taken at realisable market value. The defined benefit liabilities are fully funded. The actuarial valuation referred to shows that, on an ongoing basis, the value of the assets of £6.035m represented 106% of the value of these liabilities. The actuarial valuation also showed that the realisable market value of the Plan's assets is in excess of its minimum liabilities when assessed on the Minimum Funding Requirement basis (as defined in the Pensions Act 1995).

For the purposes of reporting under Financial Reporting Standard 17, Retirement Benefits, a valuation of the scheme was undertaken on 31 December 2002 and details are given below.

Valuation date		31 December 2002 Projected unit	31 December 2001 Projected unit
Valuation method	Notes	£'000s	£'000s
Fair value of the scheme assets	a	4,473	5,485
Present value of scheme liabilities		(5,358)	(5,379)
Scheme (shortfall)/surplus		(885)	106
Related deferred taxation at 30.0%		266	(32)
Net pension (liability)/asset		(619)	74
Funding level		83%	102%

Actuarial assumptions	Notes	2002	2001
Inflation assumption		2.5%	3.0%
Increase for pensions – members who left before 1 June 1995		3.5%	3.5%
Increase for pensions – members who left after 31 May 1995	b	3.0%	3.0%
Increase for non-GMP deferred pensions		2.5%	2.5%
Salary scale increase per annum		3.5%	4.0%
Discount rate for liabilities		5.5%	6.0%

Expected Investment Returns Asset Class	Proportion Invested		Expected Return	
	2002	2001	2002	2001
Equities	67%	65%	8.0%	7.0%
Fixed Interest	16%	28%	5.0%	5.0%
Other	17%	7%	4.0%	4.0%
Overall	100%	100%	6.8%	6.2%

The total pension costs for the Group were:	Notes	2002 £'000s	2001 £'000
Employer contribution to MSRBP (defined benefits)	c	–	–
Employer contribution to MSRBP and other plans (money purchase)	c	3,602	2,505

NOTES TO THE ACCOUNTS

28 Pensions (continued)

Under the transitional arrangements of FRS17 the effect of the standard is included by note only. The effects on the financial statements, when FRS17 is fully adopted will be as follows:

Amounts included within operating profit

	2002 £'000s
Current service cost	-
Past service costs	-
Total operating charge	-

Amounts included on other finance costs

	2002 £'000s
Expected return on scheme assets	341
Interest on pension scheme liabilities	(322)
Net finance return	19

Accounts to be included in the Statement of Total Recognised Gains and Losses (STRGL)

	2002 £'000s	% asset or liability value
Difference between actual and expected return of scheme assets	(1,153)	(25.8% on assets)
Experience gains arising on scheme liabilities	29	(0.6% on assets)
Effects of changes in assumptions underlying the present value of scheme liabilities	114	(2.5% on assets)
Total loss recognised in the STRGL	(1,010)	

Balance sheet presentation

	2002 £'000s	2001 £'000s
Net assets	70,280	63,743
Amount relating to defined benefit pension scheme (liability)/asset, net of related deferred tax	(619)	74
Net assets including FRS17 disclosure	69,661	63,817
Profit and loss reserve	35,318	31,227
Amount relating to defined benefit pension scheme (liability)/asset, net of related deferred tax	(619)	74
Profit and loss reserve including FRS17 disclosure	34,699	31,301

Notes

a: Represents the ongoing value of assets invested in managed funds operated by Scottish Equitable at the valuation date. The assets and liabilities relating to money purchase members are in addition to these figures.

b: Any pension which accrues in respect of service after 6 April 1997 will increase in line with inflation, subject to a maximum of 5% per annum.

c: In view of the funding position of the defined benefit section of MSRBP there was no requirement for an employer's contribution in the year and this is not expected to change. Employer's contribution for money purchase benefits remains unchanged at agreed standard rates.

NOTES TO THE ACCOUNTS

29 Reconciliation of operating profit to net cash inflow from operating activities

	2002 £'000s	2001 £'000s
Operating profit	15,691	19,588
Depreciation of tangible fixed assets	4,069	3,119
Amortisation of goodwill	3,116	1,478
Profit on sale of fixed assets	(166)	(80)
(Increase)/decrease in stocks and work in progress	(11,292)	231
Increase in debtors	(5,480)	(4,825)
(Decrease)/increase in creditors	(5,308)	16,648
Net cash inflow from operating activities	630	36,159

30 Analysis of net (debt)/funds

	31 December 2001 £'000s	Cash flow £'000s	Acquisition of subsidiary undertaking £'000s	31 December 2002 £'000s
Cash at bank	34,639	(27,790)	–	6,849
Finance leases	(854)	459	(407)	(802)
Loan notes	–	–	(7,161)	(7,161)
Total	33,785	(27,331)	(7,568)	(1,114)

31 Reconciliation of net cash flow to movement in net (debt)/funds

	£'000s
Decrease in cash	(27,790)
Cash outflow from decrease in finance leases	459
Changes in net funds from cashflows	(27,331)
Finance leases acquired with subsidiary undertaking	(407)
Loan notes raised	(7,161)
	(34,899)
Net funds at 1 January 2002	33,785
Net debt at 31 December 2002	(1,114)

NOTES TO THE ACCOUNTS

32 Directors' remuneration, interests and transactions

Directors' remuneration

Details of directors' remuneration for the year are provided in the audited part of the directors' remuneration report on pages 29 to 30.

Directors' interests

According to the register maintained as required by the Companies Act 1985, the interests of the directors in office at the end of the year are shown below and their interests in shares under the Long Term Incentive Plan are shown in the directors' remuneration report on page 30.

	2002 No.	5p Ordinary Beneficial	2001 No.
J C Morgan	6,241,013		6,226,801
J M Bishop	25,178		17,814
P Whitmore	2,250		2,250
B H Asher	5,000		5,000
G Gallacher	3,000		3,000
J J C Lovell	6,235,855		6,223,581
J Walden	-		-

No director had any non-beneficial interest in the ordinary shares or in the preference shares of the Company or in any shares of any Group company. As stated in the directors' remuneration report on page 28 it is not the Company's policy to grant share options to Main Board directors.

There have been no changes in the interests of directors between the year end and 11 February 2003.

Directors' transactions

There have been no related party transactions with any director either during the year or in the period to 11 February 2003.

Directors' material interests in contracts with the Company.

No director had any material interest in any contract with the Company or any Group company in the year or in the period to 11 February 2003.

33 Additional information on subsidiary undertakings, joint venture and associated undertaking

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings and joint venture which affected the Group's results or net assets.

Subsidiary undertakings

Lovell Partnerships Limited

Morgan Lovell plc

Overbury plc

Vivid Interiors Limited

Backbone Furniture Limited

Bluestone plc

Morgan Est plc

Morgan Utilities Group plc

Morgan Sindall Investments Limited

*Stansell QVC Limited

Newman Insurance Company Limited

Activity

Affordable housing

The workplace specialist

Fitting out and refurbishment specialist

Retail and leisure fit out specialist

Furniture suppliers

Construction

Infrastructure services

Infrastructure services

Investment management

Construction

Insurance

Joint ventures

Primary Medical Property Limited (47.5%)

*Morgan-Vinci Limited (50%)

Development and investment of medical properties

Infrastructure services

All subsidiary undertakings are wholly owned unless shown otherwise and with the exception of companies marked * all shareholdings are in the name of Morgan Sindall plc. With the exception of Stansell QVC Limited, registered and operating in Jersey and Newman Insurance Company Limited registered in Bermuda, all undertakings are registered in England, which is the principal place of business.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held in the Conference Room, College Hill Associates, 4th floor, 78 Cannon Street, London, EC4N 6HH at 12 noon on Thursday, 27 March 2003 for the following purposes:

Ordinary business

1. To receive and adopt the Reports of the Directors and the Auditors and the Accounts for the year ended 31 December 2002.
2. To declare a final dividend of 10.75 pence per Ordinary Share.
3. To re-elect Ms G Gallacher as a Director.
4. To re-elect Mr J J C Lovell as a Director.
5. To approve the directors' remuneration report for the year ended 31 December 2002.
6. To re-appoint Deloitte & Touche as Auditors.
7. To authorise the Directors to fix the Auditors' remuneration.

Special business

To consider and if thought fit pass the following resolutions of which resolution 8 will be proposed as an Ordinary Resolution and 9 will be proposed as a Special Resolution.

8. That the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ('the Act') to exercise all of the powers of the Company to allot relevant securities (within the meaning of that section) of the Company up to an aggregate amount of £437,918.75 such authority (unless previously revoked or varied) to expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make offers or agreements which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offers or agreements as if the authority conferred hereby had not expired.
9. That subject to the passing of the previous resolution, the Directors be and they are hereby authorised and empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authority given in the previous resolution as if section 89(1) of the Act did not apply to such allotment, provided that such power be limited to:
 - i) the allotment of equity securities which are offered to all the holders of equity securities of the Company (at a date specified by the Directors) where the equity securities respectively attributable to the interests of such holders are as nearly as practicable in proportion to the respective number of equity securities held by them, but subject to such exclusions and other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical problems under any laws, or requirements of any regulatory body or stock exchange in any territory or otherwise; and
 - ii) the allotment (otherwise than pursuant to sub-paragraphs i) above and iii) below) of equity securities up to an aggregate nominal amount of £103,104.05; and
 - iii) the allotment of equity securities up to a total nominal amount of £31,680.15 in connection with the satisfaction of conversion rights attached to the 5.625% Convertible Cumulative Redeemable Preference Shares of £1 each currently in issue

and this power shall expire on the earlier of the conclusion of the Company's next Annual General Meeting and fifteen months from the date of the passing of this resolution save that the Company may make an offer or enter into an agreement before the expiry of that date which would or might require equity securities to be allotted after that date and the Directors may allot equity securities in pursuance of such an offer as if the power conferred hereby had not expired.

By order of the Board

W R Johnston
Company Secretary
11 February 2003

Registered Office
77 Newman Street
London
W1T 3EW

NOTICE OF ANNUAL GENERAL MEETING

Notes

1. A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and vote on a poll in the member's place. A proxy need not also be a member of the Company. A form of proxy accompanies this notice.
2. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
3. In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.
4. To be effective, the form of proxy, together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof must be sent to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU to arrive no later than 12 noon on 25 March 2003.
5. Short biographical details of the directors seeking re-election are shown on page 23.
6. Service contracts of Directors will be available for inspection at 77 Newman Street, London, W1T 3EW during usual business hours on any business day from the date of this notice until the date of the meeting and for 15 minutes prior to the meeting at the Conference Room, College Hill Associates, 4th Floor, 78 Cannon Street, London, EC4N 6HH.
7. If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention there from.
8. The Company, pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, specifies that only those Ordinary Shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
9. **Resolution 8**
When resolution 8 in the notice of the Annual General Meeting is passed, the Board will have general and unconditional authority to allot 8,758,375 Ordinary Shares, which authority will expire fifteen months from the date on which this resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting. Of that number, 2,789,378 authorised but unissued Ordinary Shares will be reserved in respect of share options granted under the two Share Option Schemes which members have approved and to provide for the conversion of Preference Shares. Accordingly, following the passing of this resolution 5,968,997 Ordinary Shares, representing approximately 14 per cent of the issued Ordinary Share capital of the Company, will remain authorised, unissued and unreserved.
10. **Resolution 9**
In addition to the above, on the passing of resolution 9, the Board will have authority to allot equity securities up to an aggregate value of £103,104.05, representing approximately 5 per cent of the issued Ordinary Share capital of the Company, for cash otherwise than pro-rata to existing shareholders, which authority will expire fifteen months from the date on which the resolution is passed or, if earlier, at the conclusion of the next Annual General Meeting of the Company. The Board will also have authority to allot equity securities in order to satisfy the conversion rights attaching to the Preference Shares. However, currently there is no intention to issue any further share capital otherwise than pursuant to the exercise of conversion rights in respect of the Preference Shares in issue and in the exercise of any options under the two Share Option Schemes.

CORPORATE DIRECTORY

Directors

J C Morgan (Chairman)
J M Bishop
P Whitmore
B H Asher (Non-Executive)
G Gallacher (Non-Executive)
J J C Lovell (Non-Executive)
J Walden (Non-Executive)

Secretary

W R Johnston

Registered Office

77 Newman Street, London W1T 3EW
Tel: 020 7307 9200
Fax: 020 7307 9201
Registration No. 521970

Solicitors

Charles Russell,
8-10 New Fetter Lane, London EC4 1RS

Auditors

Deloitte & Touche,
Stonecutter Court, Stonecutter Street,
London EC4A 4TR

Tax Advisors

Grant Thornton,
Grant Thornton House, Melton Street,
Euston Square, London NW1 2EP

Clearing Bankers

Lloyds TSB Bank plc,
Po Box 17328, 11-15 Monument Street,
London EC3V 9JA

Merchant Bankers

Close Brothers Corporate Finance Limited,
10 Crown Place, Clifton Street, London EC2A 4FT

Brokers

HSBC Investment Bank plc,
Level 18, 8 Canada Square,
London E14 5HQ

Registrars

Capita Registrars,
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

Shareholder communication

Enquiries and information – please contact the
Company Secretary, W R Johnston.
Direct line: 0207 307 9230
Direct fax: 0207 307 9202
E-mail: ray.johnston@morgansindall.co.uk

Website

www.morgansindall.co.uk

Share prices (FT Cityline)

Current buying and selling prices of the Company's shares,
can be obtained by dialling 0906 843 4027.

The EPIC code as used in the Topic and Datastream Share
Price information services is MGNS.

Financial Calendar

Annual General Meeting 27 March 2003

Ordinary shares

Final dividend:

Ex-dividend date	5 March 2003
Record date	7 March 2003
Payment date	2 April 2003

Interim results announcement August 2003

Preference shares

Dividend payment dates: 15 April 2003
15 October 2003

Next conversion date 30 June 2003

Form of Proxy

Name Please print:

Address Please print:

I/We, the undersigned, being (a) member(s) of Morgan Sindall plc, hereby appoint the Chairman of the Meeting
or

Name of Proxy/(see Notes 4 and 5) Please print:

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 27 March 2003 and at any adjournment thereof.

I/We direct the proxy to vote in respect of the resolutions to be proposed at the Meeting as indicated below. (see Note 7)

Signed Dated this day of 2003

Ordinary Resolutions	For	Against	Abstention
1 To receive and adopt the Reports of the Directors and the Auditors and the Accounts for the year ended 31 December 2002	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2 To declare a final dividend of 10.75 pence per Ordinary Share	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3 To re-elect Ms G Gallacher as a Director	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4 To re-elect Mr J J C Lovell as a Director	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
5 To approve the directors' remuneration report for the year ended 31 December 2002	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
6 To re-appoint Deloitte & Touche as Auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7 To authorise the Directors to fix the Auditors' remuneration	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Special Business Ordinary Resolution			
8 To authorise the Directors to allot shares	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Special Resolution			
9 To disapply the statutory pre-emption provisions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Notes

- In order to be effective this Form of Proxy, duly completed and signed, together with any power of attorney or other authority under which it is executed or a notarially certified copy thereof, must be sent to the address shown overleaf to arrive no later than 12.00 noon on 25 March 2003.
- If the appointer is a corporation this form must be executed under its common seal or under the hand of an officer or attorney duly authorised in that behalf.
- In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- A member may appoint one or more proxies of his own choice in which case he should delete the reference to the chairman of the meeting and insert the name(s) of the person(s) appointed in the space provided.
- A proxy need not be a member of Morgan Sindall plc, but must attend the meeting in person to represent the member.
- Completion of a Form of Proxy will not prevent the holder(s) of Ordinary Shares from attending and voting at the meeting in person should they so wish.
- If no indication of how the proxy shall vote is given, the proxy will exercise discretion as to voting or abstention there from.
- The Company, pursuant to regulation 34 of The Uncertificated Securities Regulations 1995, specifies that only those ordinary shareholders registered in the register of members of the Company 48 hours before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB122



Capita Registrars (Proxies)
P.O. Box 25
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4BR

FIRST FOLD

THIRD FOLD

MORGAN  SINDALL

Morgan Sindall plc, 77 Newnham Street, London W1T 3EW

Tel: 020 7307 9200 Fax: 020 7307 9201

Visit our website at www.morgansindall.co.uk